In more than two decades, CCS Income Trust has become the pre-eminent provider of waste management and environmental solutions for the energy sector. In a nutshell, we ensure the integrity of the environment – the air we breathe and the ground we walk on.

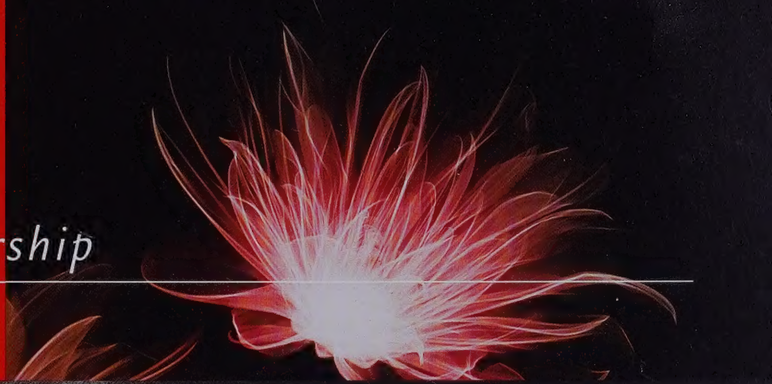
That integrity is present in the guiding principles that drive our business and which include transparency of leadership and accountability. We deliver on our commitments to customers and unitholders. Our strong corporate governance strengthens our relationship with investors.

That's the beauty of our business.

Environmental Stewardship

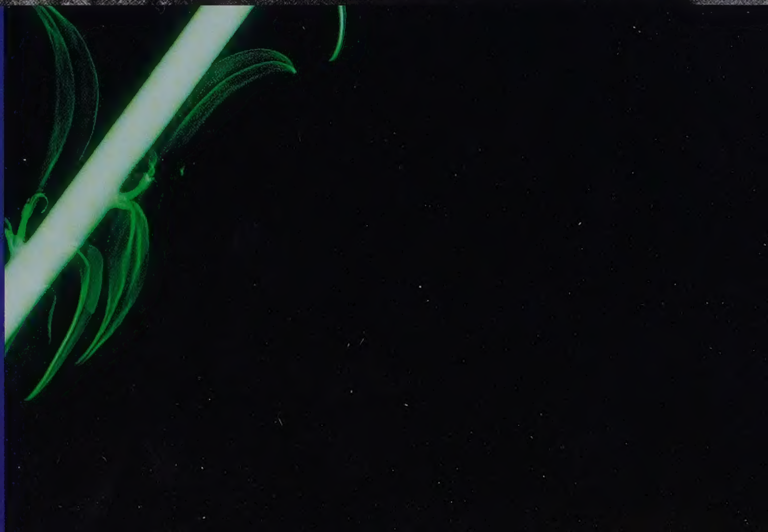
An environmentally sound future depends on strong leadership in the present. CCS proves every day it is committed to safeguarding our air and land through its synergy of waste management services. We live our promise to provide proactive environmental solutions for the long-term benefit of our clients and unitholders.

Employee Ownership

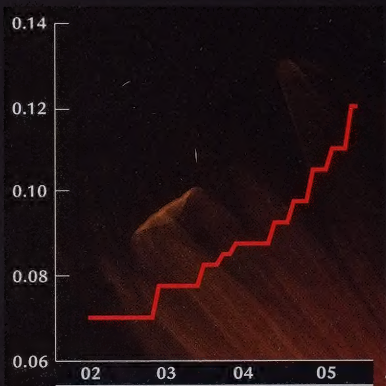


Our people are the bedrock of CCS. Our employees know that not only do they provide value, they are valued, from frontline worker to management. Our culture of continuous improvement and empowerment results in well-trained, motivated personnel who have increased efficiencies throughout CCS. They drive the productivity of the Trust, in all its divisions.

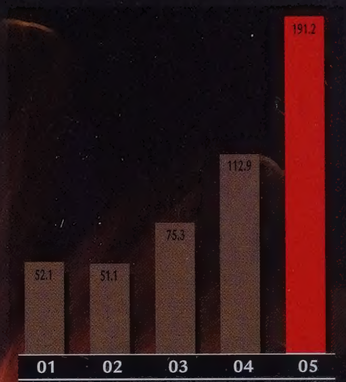
Principled Leadership



CCS Income Trust has become a leader in waste management services by adhering to its guiding principles of integrity and trust. We follow through on our commitment to provide the best quality service to our clients, and exceed industry and regulatory standards on a continuous basis. CCS' level of excellence hinges on sound leadership, an innovative spirit, and a measured, long-range approach to capital investment. We truly believe in the beauty of our business.

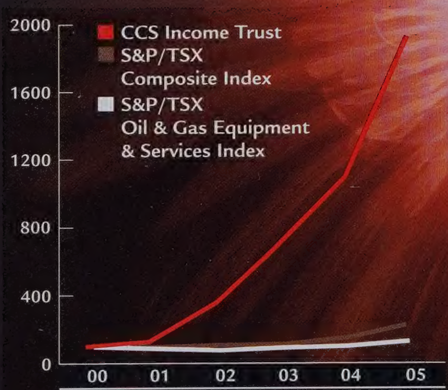


Monthly Distributions ($/unit)



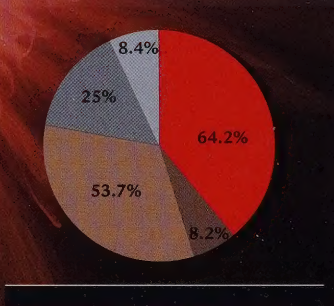
EBITDA[1] ($ millions)

(1) Non-GAAP financial measures are defined in the Management's Discussion and Analysis



Total Return on Investment ($)

This graph compares the cumulative total unitholder return on trust units of CCS Income Trust versus the cumulative return on the S&P/TSX Composite and S&P/TSX Oil & Gas Services Indices from December 31, 2000 to December 31, 2005. Total return on investment is calculated assuming an initial investment of $100 on December 31, 2000, with all cash distributions reinvested.



Operating Cash Flow Allocations (2005)

- Retained for Growth Capital
- Principal of Long-term Debt
- Distributions
- Maintenance Capital
- Amortization of Landfill/Cavern Capacity

Overview and Highlights

The past year was an exceptional year for the Trust, which achieved outstanding financial results as well as corporate growth. The results reflect CCS' ongoing commitment to increase unitholder value through controlled growth. CCS has remained focused on its priorities of delivering growth through the effective operation and expansion of existing facilities, the construction of new facilities and acquisitions.

An overview of the accomplishments includes:

- CCS' record setting growth continued in 2005 with consolidated net income for the year reaching $79.2 million, an increase of 67 percent over 2004;
- On February 23, 2006, CCS entered the U.S. market through the $21.7 million acquisition of 100 percent of the outstanding equity interests of Environmental Treatment Team (ETT), an oilfield waste processing company based in Louisiana;
- The Energy Services division posted annual revenue of $207.6 million, representing a 30 percent year-over-year increase;
- Concord Well Servicing achieved a rig utilization rate of 70 percent for the year with a $16.0 million year-over-year increase in revenue;
- The HAZCO division achieved annual revenue of $240.7 million, with operating margin reported at 15 percent of total revenue;
- CCS' payout ratio of 45 percent for the twelve months ended December 31, 2005 represents the Trust's continued commitment to reinvest a significant amount of its cash flow in growth opportunities;
- In 2005, CCS acquired the assets of four operating companies for consideration totaling $17.7 million; and
- The Trust announced an increase in monthly distributions from $0.125 to $0.135 per unit for unitholders of record on March 31, 2006. This increase brings our annualized distribution to $1.62 per unit.

($000s) except per unit amounts	**2005**	2004	% change
Revenue	**938,659**	300,576	212
EBITDA [1]	**191,243**	112,859	69
Income before non-controlling interest	**105,971**	63,739	66
Net income	**79,161**	47,422	67
per unit – diluted	**1.87**	1.18	58
Funds from operations [1]	**159,544**	107,959	48
per unit – diluted	**2.81**	1.99	41
Capital expenditures	**107,105**	70,168	53
Weighted average trust units	**42,264**	39,780	
Exchangeable shares [2]	**14,443**	14,405	
Weighted average trust units – diluted	**56,707**	54,185	

1 Non-GAAP financial measures are identified and defined in the attached Management's Discussion and Analysis.

2 Assuming all exchangeable shares at December 31, 2005 are converted at the period end exchange ratio of 2.54714 (2004 – 2.44062).

CCS demonstrated the success of its disciplined growth strategy in 2005. We brought increased value to unitholders while continuing to build on our operations. Revenue grew by 212 percent year-over-year to $939 million.

Net income rose by 67 percent. Funds from operations increased by 48 percent to $160 million or $2.81 per unit.

Our financial strength meant that we were able to increase monthly distributions to $0.135 per unit in March, 2006. Monthly distributions have increased by 93 percent since our conversion to an income trust in 2002.

Strategically, the acquisition of the Louisiana based Environmental Treatment Team (ETT) signals CCS' entry into one of the largest energy services markets in the world – the U.S. This is the first step in the long-range strategy to increase our global presence.

Who and what we are

CCS is a world leader in oilfield waste management. We have earned that reputation by providing effective, efficient services throughout our integrated operating divisions, by consistently achieving the highest standards of environmental stewardship, and by continually evaluating opportunities to provide new services and expand into new markets.

Each of CCS' operating divisions of Energy Services, Concord Well Servicing, HAZCO Environmental Services and CCS Energy Marketing achieved tremendous growth through 2005. This came about because of our commitment to excellence, a promise reflected in the high level of returns for our unitholders. How we got here and where we are going are based on CCS Income Trust's most binding principles: integrity and leadership, in the industry and throughout every site and division that CCS operates.

Environmental stewardship

Since starting out in 1984, CCS has been at the forefront of environmentally safe waste management, taking a leadership position in integrating new technologies to meet and exceed increasingly stringent regulatory standards.

The cornerstone of CCS Income Trust is CCS Energy Services. The division is focused on treatment, recovery and disposal (TRD) of oil and natural gas by-products. From this core activity we have steadily added a range of synergistic services including emulsion treatment, crude oil terminalling, cavern and engineered landfill sites, and drilling fluids technologies.

The acquisition of ETT expands Energy Services' range into the U.S. It offers CCS immediate access to a market significantly larger than Canada's, with strong environmental regulations. Entering the U.S. market gives CCS the opportunity to demonstrate again that we are leaders in environmental stewardship and cost-effective operations. It's a major growth opportunity for the Trust.

From improving waste separation and trimming energy costs, to launching innovative disposal solutions in salt caverns, CCS is committed to reducing the impact of oilfield waste on the environment, in the field and at our facilities.

DAVID P. WERKLUND
Founder, Chairman of the Board, President and Chief Executive Officer

RICK WISE, P. Eng.
Vice President, Engineering, Regulatory and Midstream Development

BLAINE MELNYK
General Counsel and Corporate Secretary

GORDON N. VIVIAN
Vice President and General Manager, Concord Well Servicing

BRIAN McGURK, CHRP
Vice President, Human Resources

MARSHALL L. McRAE, CA
Chief Financial Officer

JOHN THOMPSON, P. Eng.
Vice President, Operations HAZCO

We have repeatedly shown the courage and integrity to scrutinize existing processes and modify or rebuild them to meet evolving standards of excellence. Over the past 10 years CCS has overhauled all of its TRD facilities. The efficiencies gained have not only improved environmental management but have increased the value proposition to our customers and returns to our unitholders. Returns on our capital investments have consistently been evident in our increased customer base and higher revenue. We deliver value to our customers and to our unitholders by meeting every commitment we make. We take personal pride in CCS.

Results-driven growth

CCS has experienced tremendous growth over the past five years, underpinned by record-setting industry activity and driven by sound leadership, vision and business fundamentals. CCS has invested $352 million in maintaining and growing our core businesses since the start of 2002, the year we became a trust, achieving a corresponding 695 percent increase in revenue and 146 percent increase in cash flow per unit. The results highlight our capability to invest capital wisely into assets, technologies and processes that deliver profitable results to our operations and investors.

Our growth continued in 2005. Distributions declared of $53.7 million for the year, plus the increase in unit price of 68 percent during the year, combined for a 2005 total return to unitholders of 76 percent. Our approach to growth is measured and flexible, building on existing strengths and capitalizing on new opportunities. As the pace of exploration and production continues, CCS' growth strategy has positioned us to take advantage of rising demands for waste handling services through our expanding multi-faceted operations.

CCS' approach to growth is three-pronged: we have expanded existing facilities and built new ones (organic growth), we have acquired complementary businesses and we have extended operations into new geographical areas. This measured strategy ensures existing assets retain and increase in value, adds new operations and complementary businesses to CCS' asset base, and opens the door to opportunities around the world.

During 2005 we completed one new TRD facility, started construction of two others, expanded several facilities, and opened one new engineered landfill. We continually expanded our services, including growth of our in-house marketing division to maximize netbacks from the sale of recovered crude oil. The marketing division has created significant value for our unitholders and customers since its inception in October 2004, and generated an operating margin of $8 million in 2005. This was another example of CCS combining its years of operating experience with vision and drive to create new value from a previously untapped source.

Promoting innovation

One of the key components to CCS' leading position in the industry is our ongoing pursuit of technologies that improve operations across the divisions and increase returns to unitholders.

In the fourth quarter we commenced design and construction of a state-of-the-art landfill leachate treatment plant. The plant is currently in the commissioning and testing phase at one of our oilfield/industrial landfills. This comprehensive treatment system will help to lower our landfill operating costs and afford us the beneficial re-use of the treated water.

We also continue to develop oil recovery programs using centrifuge technology at several TRD facilities. The technology enhances our existing processes for the separation of oilfield waste into marketable oil, thereby cutting costs and increasing recovered products.

International expansion

We have continued our search for international growth opportunities to enhance existing divisions, add new services and increase our market share by accessing new geographical regions. The $21.7 million acquisition of ETT in February 2006 was the result of a long-term strategy to broaden CCS' reach into international markets. The acquisition provides a platform of assets and people to bring our existing proven service model and creative formula for growth into the United States.

Our next steps will be to continue the investigation of opportunities in Mexico's oil and natural gas industry and in the heart of the world's petroleum business – the Middle East. We are also expanding our network of relationships in Kazakhstan in order to explore opportunities in that growing market. By practising careful due diligence and a disciplined approach to international growth, CCS will maintain firm control of our capital investments and our operations under any flag they fly.

Customer service

Integrity and trust are at the core of CCS' customer relations. We deliver value to our customers by providing services which exceed industry standards of excellence and by following through on all our commitments. We believe we have earned the trust of customers to meet their needs. Our highly-trained, dedicated employees make sure that we do.

CCS is committed to driving value for unitholders through sound leadership and the productivity of our people. We stand out in an industry where the shortage of skilled labour ranks number one on the list of challenges. CCS' Leadership Guide, given to every employee and manager, articulates my commitment to help everyone follow our principles of trust and integrity and promote a respectful workplace where people are encouraged to provide input.

By creating a culture of learning and empowerment, CCS attracts – and keeps – motivated, productive employees. They are the front line and foundation of all our divisions. They know they are valued. A strong sense of ownership is part of the CCS culture, which translates into productivity and profitability. All of our people, from field personnel to manager, contribute to driving value for unitholders.

I would like to acknowledge and express my gratitude to all the people in the corporate office and all the operating divisions of the Trust. Their loyalty and dedication, and their focus on doing the right thing with absolute integrity, show a true commitment to the values of CCS, to the long-term benefit of our unitholders. I would also like to thank Mr. Rene Amirault, our former Vice President, Corporate Development. He left our Trust in January 2006 to pursue other interests. Rene was a significant contributor to our growth over the last 12 years.

David P. Werklund
Chairman, President and CEO
March 9, 2006

ISSUES AND INITIATIVES

Board and Committee Independence

To ensure governance independence, the CCS Board has implemented a process whereby each Director annually outlines his CCS relationship. At the Committee level, all Committees are chaired by independent directors and the Audit Committee, the Nominating and Corporate Governance Committee and the Human Resources and Compensation Committee are all comprised entirely of independent directors.

Separation of Chairman and CEO Roles

CCS understands the potential benefits derived from the separation of the Chairman and CEO roles, including the positive alignment of Board interests with those of unitholders and the overseeing of management. However, in CCS' current circumstance, those benefits are best realized with David P. Werklund serving as both Chairman and CEO. Mr. Werklund greatly enhances the Trust with his substantial experience as founder and CEO of the organization since its inception over 20 years ago, As well, his interests are strongly aligned with other unitholders through his 30 percent ownership in the Trust.

Approval/Monitoring of CEO Objectives

CCS completes a strategic planning initiative each year. After thorough review of the plan, the Board develops an annual balanced scorecard for the CEO. Target achievements are reviewed quarterly by the Nominating and Corporate Governance Committee, forming the basis for an annual performance assessment of the CEO.

CEO and CFO Certification

CCS fairly presents its financial statements in accordance with Generally Accepted Accounting Principles. In preparation for the pending Canadian certification requirements, CCS has developed a compliance project – a major endeavour in a trust the size of CCS. Progress on the project is actively monitored by the Audit Committee, with a quarterly report directed to the Committee by the project manager.

J. Sherrold Moore
Director, Chairman of the
Nominating and Corporate Governance Committee

CCS INCOME TRUST BOARD OF DIRECTORS

Standing: (L-R), Brad R. Munro, Director, Chairman of the Audit Committee;
Brian J. Evans, QC, Director, Chairman of the Environmental, Health & Safety Committee;
Naveen Dargan, Director;
Bradley J. Thomson, Director, Chairman of the Human Resources Committee.

Seated: (L-R), J. Sherrold Moore, Director, Chairman of the Nominating & Corporate Governance Committee;
David P. Werklund, Founder, Chairman of the Board, President and Chief Executive Officer.

Energy Services

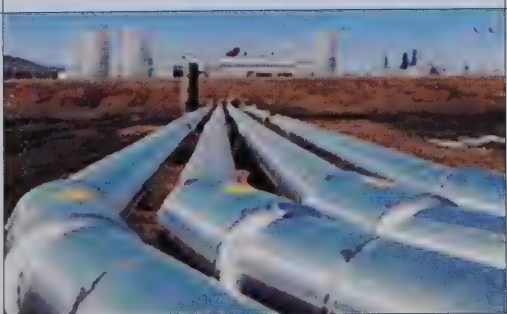
The cornerstone of CCS, Energy Services owns and operates the most efficient and environmentally sound treatment, recovery and disposal facilities catering to the upstream oil and gas industry. In addition to the division's 19 TRDs, CCS engineered landfill facilities and waste disposal caverns provide innovative waste management solutions across western Canada.

Concord Well Servicing

Concord's 53 service rigs form one of Canada's most modern fleets in the oil and natural gas sector. Concord is the fifth largest service rig operator in Canada.

HAZCO Environmental Services

An industry leader in environmental and decommissioning solutions, HAZCO's core business includes site remediation, decommissioning, and waste management services. HAZCO also offers specialty services such as project-specific environmental technology, and environmental drilling.



Energy Marketing

CCS Energy Marketing (CEM) purchases and sells crude oil that is delivered from the network of CCS Energy Services facilities. CEM provides enhanced netbacks to the recovered oil and the waste oil streams for CCS Energy services and also provides marketing services to many third party customers.

Customers	Financial Highlights	2005 Activities	Outlook
Leading-edge technology in Energy Services TRD facilities offer optimum separation processes during treatment of drilling mud, completion fluids, and tank bottom sludge. CCS also provides emulsion treatment, water disposal, tank and truck washing, and crude oil terminalling. Energy Services unique waste disposal in underground salt caverns and disposal well facilities provide added value through cost-saving synergies.	Energy Services generated record financial results in 2005, increasing operating margins by 1 percent to 63 percent. Revenue and EBITDA made strong gains due to heightened activity throughout the energy sector. Sustained high commodity prices fueled high levels of oil and gas activity, and demand for waste management services. In 2005, revenue from recovered oil sales increased 4 percent from 2004, and represented 14 percent of total revenue.	CCS continued an aggressive expansion strategy in western Canada by increasing capacity, commissioning new facilities, and enhancing returns through improved efficiencies. Energy Services started construction of the Spirit River TRD facility, and substantially completed the Brooks TRD, both in Alberta. CCS built a new engineered landfill facility at Bonnyville, Alberta, and completed a new disposal well facility at Moose Creek, Alberta. New oil recovery technology was implemented at eight TRD facilities during 2005, enhancing sales and reducing fuel costs.	Strong activity levels in the oil and gas industry indicate steady demand for CCS waste management services, in Canada and abroad. CCS will continue to expand into domestic growth areas such as northeastern British Columbia, the Peace River country and oil sands regions in Alberta. In 2006, Energy Services will continue to explore international opportunities, while continuing to increase capacity and reduce operating costs in existing facilities.
Based from six strategically placed offices in western Canada, Concord offers a variety of contract services to oil and natural gas exploration and development companies. The division provides expertise in well completions, workovers, abandonments, and extracting wellbore fluids. Concord's expanding base of operations and commitment to continual fleet renewal provides an umbrella of coverage to western Canadian operators.	A heavy pace of drilling sustained rig utilization over 2005, despite a wet spring and summer. Operating hours increased, and rig utilization rose to 70 percent. Record drilling activity in the western Canada Sedimentary Basin propelled Concord's 2005 revenue to $93.5 million, approximately 20 percent over 2004. The division's operating margins rose 4 percent to $32.1 million, from $23.0 million in 2004.	In late 2005, Concord acquired oilfield rental equipment supplier HiAlta Energy Services for $7 million. The acquisition levers Concord into new, complementary business opportunities of renting out well servicing and drilling equipment. Concord laid the groundwork to build a new office in Grande Prairie which will also serve as a workplace for related CCS divisions. The division also acquired the previously leased Blackfalds shop. During 2005, Concord built two spare carriers which allow the division to continue well service operations without having to break while rigs are being retrofitted. Concord's focus on safety saw its total recordable injury frequency drop 44.6 percent from 2004.	High levels of drilling for oil and natural gas in western Canada are expected to continue through 2006, along with strong commodity prices. The increased activity points to steady demand for Concord's oilfield services. During the year, the division will continue to explore new growth opportunities which meet its economic and strategic goals, and pursue strategic projects which complement existing services and geographical regions.
HAZCO operates industrial landfills, bioremediation facilities and hazardous waste transfer stations across western Canada, and in Ontario. HAZCO is also active in Peru and in the United States. Demand for the division's asset recovery and demolition services is firm, as industry continues to upgrade or decommission sites. New methodologies in drilling and waste segregation allow HAZCO to expand services to existing clients while strengthening synergies with Energy Services.	In its first full year under CCS' ownership, HAZCO's 2005 revenue of $241 million reflected continued demand for all services. HAZCO's operating margins were 15 percent, due in part to strong activity in the engineered landfill and drilling business units.	HAZCO expanded into new markets in 2005, and undertook the single largest site remediation project in its history. The project contributed substantially to HAZCO's 2005 revenue. Following through on the division's growth strategy, HAZCO acquired the operating assets of an Ontario-based remediation contractor, a move expected to increase its customer base in the province. HAZCO also acquired the assets of an environmental water treatment and tank rental business in British Columbia.	HAZCO plans to take advantage of increasing international investment in the Alberta oil sands to solidify its presence in Fort McMurray. The area offers the market potential to increase cross marketing with CCS' customer base, providing added value to unitholders. In 2006 HAZCO will build on gains made in the Ontario and British Columbia markets, and will continually seek new growth opportunities.
CEM transacts business with a wide variety of customers from small to major producers and large marketing firms. CEM ships oil on the major feeder pipelines that the TRDs are connected to and also ships on the Kinder-Morgan Terasen Pipeline system. CEM purchases and sells a number of crude oil streams including condensate, light sweet, light sour and medium sour.	CEM's 2005 operating margin was $7.9 million on revenue of $396.3 million. 2005 was the first full year of operations for CEM.	CEM was the single shipper at four facilities in 2004 and increased to nine facilities in 2005.	CEM expects to see continued growth in volumes and revenue as new CCS Energy Services facilities come on stream and overall industry activity grows at existing TRDs.

CCS' focus on leadership, integrity, and innovation has positioned the Trust to take full advantage of unprecedented activity in western Canada's energy sector.

The Trust has a firm base of operations to expand from in 2006 with increased synergies between divisions to broaden customer bases in key western Canadian markets. The combined expertise of CCS' core divisions, organic growth through increased capacity, and the addition of new services lay the foundation for CCS' strong, continuous growth in the region.

Heightened levels of oil and natural gas activity in western Canada point to sustained opportunities for growth in CCS' core services, and expansion into new business areas.

In British Columbia, both natural gas drilling in the northeast, and remediation of industrial sites in the Lower Mainland present increasing market potential for CCS. Accelerated drilling activity in the northeast presents a fundamental area of growth for Energy Services. As phase three of CCS' expansion plan unfolds, Energy Services is evaluating an expanded market presence in the Fort Nelson region.

Alberta's oil sands, in the northwest corner of the province, represent large, relatively untapped potential for synergies between Energy Services, HAZCO and the newly acquired Normcan. CCS plans to provide full service, on-site mine waste management and engineered landfill services to the oil sands producers, and is considering opportunities to provide other services.

High levels of drilling, as predicted by the Canadian Association of Oilwell Drilling Contractors (CAODC), will support Concord's continued growth strategy. Over the year, Concord will continue to explore expansion projects which meet the division's economic and strategic criteria.

CCS' business model emphasizes continual improvement to increase efficiencies and operating margins. During 2005, the Energy Services division began deploying centrifuges at certain TRD facilities as part of our continued improvement. We plan to install three more centrifuges in 2006.

For 2006, CCS will continue to implement opportunities to drive unitholder value through environmental leadership, enhanced services, and acquisitions that deliver consistent rates of return.

Western Canadian Opportunities

1 Northeastern British Columbia

Energy Services entered the British Columbia market in 2002 by completing a series of three platform acquisitions. Since then, CCS has followed a deliberate three phase strategy to consolidate interests in what has become an important natural gas-producing region. In 2006, Energy Services plans to evaluate the market potential for another TRD east of Fort Nelson in the Sierra production region. The division currently operates a water disposal facility at this location. CCS will continue to build on operational efficiencies in the region to raise throughput and reduce operating costs.

2 Peace River Country

The success of the 2003 Rainbow Lake TRD makes the Central Peace region a prime location for CCS expansion. The Spirit River TRD, about 65 kilometres north of Grande Prairie, is expected to start operations by May, 2006. South of Grande Prairie, CCS' original TRD, application has been made for a second TRD in the area. The two new facilities will dramatically enhance CCS' market presence in the greater Grande Prairie region and position CCS to take advantage of an expanding market. Concord is constructing an expanded maintenance shop in Grande Prairie to support its continued growth.

3 Fort McMurray

Centre of Alberta's oil sands, the Fort McMurray region represents a strong market for new opportunities. CCS plans to offer integrated waste solutions on a customer-by-customer basis, bundling TRD and HAZCO environmental services. Our goal is to become the primary oilfield waste management contractor in the region.

4 British Columbia Lower Mainland

Strong economic growth in the lower mainland of British Columbia is driving HAZCO's expansion in the region. High real estate values have fueled redevelopment plans for former industrial sites, prompting increased demand for HAZCO's site remediation and environmental technologies.

5 Central Alberta

Concord will take advantage of a growing oilfield services market by continuing to expand its dominant market position in the region. The acquisition of the oilfield equipment rental company assets of HiAlta Energy Services, based in Whitecourt, AB, offers dynamic synergies with Concord's existing client base, and facilitates the ability to expand HiAlta Energy Services presence further into new markets. Additionally, Concord is near completion of a new facility maintenance shop and office facilities in Whitecourt.

6 Southern Alberta

CCS is breaking into new territory with the completion of the Brooks TRD in 2006. The area is characterized by shallow gas plays and high levels of activity, and is a prime location for CCS expansion. With the use of innovative waste management technologies, CCS anticipates achieving a strong market presence by providing cost-effective TRD options. A disposal well facility in Medicine Hat, acquired in 2004, also offers new opportunities to expand CCS' client base.

International Growth Strategies

In 2005, CCS formed a dedicated international business development team, leveraging out-of-the-box vision with standard-setting oilfield waste management experience to launch our expansion strategy.

CCS' forward thinking has positioned the Trust to take advantage of growing demand for environmental containment and remediation solutions outside Canadian borders. The International team is targeting projects in major petroleum hubs around the world where the complementary strengths of Energy Services and HAZCO, can have the greatest impact. The international business development group will focus on financially sustainable projects, in stable regions, which fit CCS' service roster and offer the greatest return on investment to unitholders.

The international business development team has been in the works since 2002 when CCS saw demand for superior waste management services in oil and natural gas centres such as the United States and Mexico, Northern Europe and the Middle East.

Increasingly, international and state-owned petroleum corporations are being held accountable for environmental breaches and pressured to institute environmentally sound exploration and development procedures. CCS is strategically placed to become the dominant oilfield waste management provider in key producing markets.

The first step in CCS' international expansion strategy occurred in late February 2006 with the announcement of the acquisition of Environmental Treatment Team (ETT), a well-established U.S. oilfield waste processing and disposal company focused on offshore drilling.

Further south, Mexico's state-owned oil and gas industry faces pressure from international funding agencies and from its citizens to modernize waste management systems and disposal facilities for offshore and onshore operations. CCS has identified that this region is a strategic fit and expects to explore both the onshore and offshore markets in more detail.

Investigative work continues throughout the Middle East region, heart of world oil production, and has provided very positive feedback from the government regulators and operators.

The Trust will continue to act on financially sound opportunities in the international arena, growing a reputation as a world leader in oilfield waste management services.

International Opportunities

1 United States

The acquisition in late February 2006 of ETT places CCS on a key geographic platform to expand into the U.S. Gulf of Mexico's offshore market. With operations in Louisiana and Alabama, CCS plans on molding a rate driven market into one focused on value-added services through synergies with other CCS service offerings. As CCS moves forward into 2006 it will launch a long-term growth program to incorporate caverns, disposal wells and engineered landfills into the division's growth strategy.

2 Mexico

CCS is conducting a market evaluation of opportunities in Mexico. Similar to the ETT acquisition strategy, CCS is looking to develop markets to support a waste treatment facility complemented with cavern and water disposal wells. The Trust is evaluating offshore and onshore opportunities, as Mexico modernizes its waste management strategy.

3 Kazakhstan

The former Soviet republic presents great potential for remediation projects as a maturing government seeks to remedy years of environmentally unregulated oil and natural gas development. Opportunities may exist to provide drill cutting disposal, waste management and remediation, facilities decommissioning and sulfur block processing. Growing oil and gas activity in the Caspian Sea may also present opportunities for CCS in Kazakhstan.

4 Middle East

The Persian Gulf represents a substantial potential market, with high levels of oil and natural gas activity onshore and offshore. CCS continues to build relationships in several Middle Eastern countries and to pursue opportunities in the region.

Community Contributions

At CCS, we know that we have a responsibility to be respectful of, and contribute to, the betterment of the communities in which we operate. We pride ourselves on having demonstrated such a commitment year after year and having been able to contribute to numerous organizations that benefit these communities.

We seek to support the efforts of our many employee-volunteers who contribute time and talent to local organizations, as well as support regional and national organizations committed to improving the well-being of our nations' citizens. From the United Way to local Little Leagues, communities will find CCS to be a partner in giving. Support by CCS may be given as a donation of a product or merchandise, sponsorship or financial donations.

Just one of many financial donations made in 2005 was to the Ronald McDonald House Southern Alberta (formerly Ronald McDonald House Calgary) where we have committed funding of $300,000 over a three year period. A Ground Breaking ceremony was held in January 2006 at the site of the new House in Calgary. The ceremony marked the start of construction on the new House as well as starting off the Public Campaign to raise funds and awareness for the new House.

Ronald McDonald House is a home-away-from-home for families with children undergoing life saving treatments at nearby Children's Hospitals. It's a place where families can be themselves and kids can share their experiences with others who are just like them. Ronald McDonald House offers these children and their families a warm, compassionate and comfortable home environment, at a nominal overnight fee. Parents find a place to rest and feel safe, while their children can lead as normal a life as possible.

There are twelve Ronald McDonald Houses across Canada and each one is owned and operated by a local community non-profit organization with a volunteer Board of Directors. The Houses rely on the kindness and generosity of corporate and individual donors to meet the operating costs and the many products and services required to operate each House.

CCS will continue to support the communities we operate in through a combined program of donations, sponsorships and employee commitment.

Safeguarding the environment by building and operating the most technologically advanced, efficient oilfield waste management systems is the heartbeat of CCS.

We lead industry in helping minimize the impact of resource development, and are committed to protecting our most valuable resources – our people.

In a year of record activity, and corresponding risk, in the oil patch, CCS was a leader in environment, health and safety stewardship. Through our core philosophy of continuous performance improvement, CCS facilities and staff met and exceeded regulatory standards in environment, health and safety.

In June 2005, CCS achieved the highest level of recognition, Platinum, in the Canadian Association of Petroleum Producers' (CAPP) Stewardship Program. The program measures industry's environmental, health, safety and social performance through member-volunteered data. Employees of the Trust sit on a number of waste management, and development related committees at CAPP, where they have been members since 2004.

In 2005, CCS conducted greenhouse gas emission baseline studies at all of our treatment, recovery and disposal facilities. Based on this assessment CCS established that our greenhouse gas emissions are below the Federal threshold level for reporting.

In our Energy Services division, our safety record is almost unparalleled in the industry, averaging between zero and one lost-time-accidents over the last three years. In 2005, CCS was awarded best performer in "Health and Safety 2004" by Work Safe Alberta, a joint industry, labour, and government initiative. The awards, given to 343 companies out of 126,000 in Alberta, confirmed our commitment to health and safety leadership and continuous improvement within the workplace.

Continuing our commitment, Concord Well Servicing reduced the number and frequency of reportable injuries in the division by almost 45 percent in 2005. The improvement was achieved through training and concerted efforts by management and workers to integrate safety in everyday behaviour.

Further training enables all CCS employees to know and understand their responsibilities in maintaining environment, health and safety standards. We encourage environmental and regulatory staff to pursue professional development and graduate studies. Strong leadership and knowledgeable staff allows CCS to continue meeting and setting the highest standards of environmental health and safety stewardship in the industry.

This Management's Discussion and Analysis should be read in conjunction with the Audited Consolidated Financial Statements and the Auditors' Report included in this Annual Report of CCS Income Trust (the "Trust" or "CCS").

CCS INCOME TRUST – TEN YEAR REVIEW OF OPERATIONS

	12 months ended December 31									
(000s except per unit or share amounts)	**2005**	2004	2003 restated	2002 restated	2001 restated	2000 restated	1999 restated	1998 restated	1997 restated	1996 restated
Revenue	**938,659**	300,576	180,144	118,123	110,961	67,849	45,712	42,349	32,025	23,272
Expenses										
Operating	**732,148**	176,511	97,193	59,880	52,834	35,332	28,196	25,536	19,878	16,585
General and administrative	**16,824**	12,264	9,007	8,100	6,077	4,141	3,433	3,928	2,738	2,122
Depreciation and amortization	**39,755**	29,589	27,894	15,048	11,044	6,586	4,915	3,837	2,504	1,763
Interest on debt	**8,598**	4,554	4,466	3,679	5,022	2,080	1,066	678	962	463
Net income before non-controlling interest	**105,971**	63,739	37,745	21,746	n/a	n/a	n/a	n/a	n/a	n/a
Net income	**79,161**	47,422	27,969	16,737	20,579	11,976	4,199	4,311	4,159	(697)
per unit fully diluted	**1.87**	1.18	0.77	0.53	0.60	0.41	0.15	0.17	0.20	(0.04)
Funds from operations	**159,544**	107,959	70,311	47,084	36,143	20,004	11,036	9,744	7,852	4,018
per unit fully diluted	**2.81**	1.99	1.44	1.14	1.05	0.66	0.41	0.39	0.38	0.20
Capital expenditures	**107,105**	70,168	122,111	52,312	57,398	40,722	19,471	16,914	21,161	8,874
Total assets	**677,831**	539,365	360,540	239,102	182,207	124,413	82,067	64,832	53,912	30,116
Long-term debt	**156,397**	136,503	52,088	24,500	44,231	34,546	20,000	11,500	6,947	10,070
Non-controlling interest	**69,582**	46,669	30,727	21,110	n/a	n/a	n/a	n/a	n/a	n/a
Unitholders' equity	**259,986**	226,834	184,743	126,346	72,707	51,206	40,146	35,947	30,584	9,519

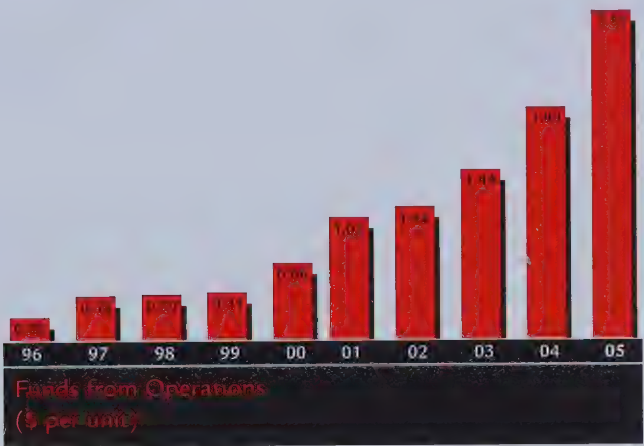
Certain comparative figures for prior years have been retroactively restated to incorporate the February 28, 2005 two-for-one trust unit split, and the retroactive application of changes in accounting policies for exchangeable securities and asset retirement obligations.

This annual report, including the Management's Discussion and Analysis contains certain statements that are not historical in nature and are forward-looking statements. These forward-looking statements include statements relating to the Trust's plans, strategies, objectives, expectations, intentions and resources. They are not guarantees as to the Trust's future results since there are inherent difficulties in predicting future results. When used throughout this report, the words "anticipate," "expect," "project," "believe," "estimate," "forecast," "intends," and similar expressions identify forward-looking statements, which include statements relating to pending and proposed projects and business activities. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance; regulatory parameters; weather and economic conditions and, in the case of pending and proposed projects, risks relating to design and construction; regulatory processes; obtaining financing; and performance of other parties, including partners, contractors and suppliers. Accordingly, actual results could differ materially from those expressed or implied in forward-looking statements.

Non-GAAP Measures

This Management's Discussion and Analysis contains references to certain financial measures that do not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and may not be comparable to similar measures presented by other companies or trusts. These measures are provided to assist investors in determining the Trust's ability to generate cash from operations and to provide additional information regarding the use of its cash resources. These financial measures are identified and defined below:

- "EBITDA" is determined from the consolidated statements of income and accumulated earnings and is defined as operating margin before asset retirement obligations, less general and administrative expenses.
- "Funds from operations" is derived from the consolidated statements of cash flows and is calculated as cash provided by operating activities before changes in non-cash working capital and asset retirement obligations.
- "Growth capital expenditures" include amounts incurred to add new facilities or services, and to replace utilized capacity and expand CCS' engineered landfills and waste-disposal caverns.
- "Maintenance capital expenditures" refer to capital expenditures required to maintain existing levels of service.



- "Cash available for distribution and growth capital expenditures" is calculated as funds from operations, less required principal repayments of term credit facilities, maintenance capital expenditures and amortization of capacity which is cash designated for the replacement of engineered landfill and cavern capacity.
- "Payout ratio" is calculated as cash distributions for the period divided by cash available for distribution and growth capital expenditures, as referenced in the CCS Cash Distributions table disclosed later in this document.

CCS Income Trust

Since May 22, 2002 CCS has operated as an income trust. On that date, holders of common shares of the predecessor company, Canadian Crude Separators Inc., exchanged their common shares for trust units of CCS or exchangeable shares of CCS Inc., the wholly-owned operating subsidiary of the Trust. Exchangeable shares of CCS Inc. are exchangeable into trust units of CCS Income Trust at the option of the holder.

The Trust has achieved outstanding financial results along with success in corporate growth since its inception. CCS is committed to increasing unitholder value through controlled growth in three key areas: the effective operation and expansion of existing facilities, the construction of new facilities and strategic acquisitions.

CCS reports results of its operations through four main business segments:

CCS Energy Services division (Energy Services)

This division owns and operates treatment, recovery and disposal (TRD), cavern and engineered landfill facilities throughout western Canada. Services are provided in the following areas:

- emulsion treatment;
- water disposal;
- waste processing;
- drilling mud disposal;
- tank/truck washing;
- disposal of naturally occurring radioactive material (NORM);
- crude oil terminalling;
- cavern disposal; and
- engineered landfill disposal.

CCS Energy Marketing division (CEM)

Responding to the opportunity to maximize the return on the marketing of recovered crude oil, CCS initiated its in-house Energy Marketing division in October 2004. CCS Energy Marketing (CEM) extracts additional value and operating margin on waste and recovered oil volumes from the Energy Services facilities. The CEM division captures the incremental value created through the marketing chain with the following revenue streams:

- lease purchases;
- single shipper/optimization; and
- bulk purchases.

HAZCO Environmental Services division (HAZCO)

This division is an industry leader that provides a wide range of specialized services including:

- site remediation;
- decommissioning;
- waste services;
- environmental construction;
- environmental technologies;
- emergency response;
- engineered landfill disposal;
- sulphur services;
- environmental and geotechnical drilling; and
- other specialty services.

HAZCO operates a network of industrial landfills, bio-remediation facilities and hazardous waste transfer stations across western Canada. HAZCO provides services primarily throughout Canada, with select services provided in Peru and the United States.

Concord Well Servicing division (Concord)

This division owns and operates 53 service rigs, providing a wide variety of well completion and workover services to the Canadian oil and natural gas service sector. Established in 1979, Concord provides a variety of contract services from its six strategically located offices in western Canada. Through the acquisition of HiAlta Energy Services in 2005, this division has expanded its services to include the rental of oilfield equipment.

DISCUSSION OF FINANCIAL RESULTS

EBITDA, NET INCOME AND FUNDS FROM OPERATIONS

(000s except per unit amounts)	2005	2004
EBITDA[1]	**$ 191,243**	$ 112,859
% change from prior year	**69%**	50%
Income before non-controlling interest	**105,971**	63,739
% change from prior year	**66%**	69%
Net income	**79,161**	47,422
% change from prior year	**67%**	70%
per unit – diluted	**1.87**	1.18
Funds from operations[1]	**159,544**	107,959
% change from prior year	**48%**	54%
per unit – diluted	**2.81**	1.99

1 Non-GAAP financial measures are identified and defined in the Management's Discussion and Analysis.

The increase in EBITDA for the twelve months ended December 31, 2005 was attributable to the addition of the HAZCO and Energy Marketing divisions in late 2004, an overall strong demand for services in the oil and gas sector, and a consistent operating margin percentage in all four business segments.

Net income for the twelve months ended December 31, 2005 increased by $31.7 million over the same period in 2004. The increase was due in large part to the HAZCO division, which contributed $27.9 million to net income for the year; the contribution in 2004 was $1.4 million due to the December 10, 2004 acquisition date. The CCS Energy Marketing division reported a full year of operations in 2005 versus three months in 2004 and contributed $7.9 million to net income for 2005 compared to $0.8 million for 2004. Net income was negatively impacted by a provision for income taxes of $32.7 million. Due to the strong operating performance, CCS recorded income taxes at an effective tax rate of 24 percent in 2005 compared to 16 percent in 2004.

Funds from operations for the twelve months ended December 31, 2005 increased by $51.6 million over 2004 as a result of the Trust's strong operating performance across all four of the operating divisions.

CASH DISTRIBUTIONS

During 2005, the Trust declared distributions to unitholders of $53.7 million, an increase of $12.0 million over 2004. Distributions declared represent a payout ratio on cash available for distribution of 45 percent and 56 percent in 2005 and 2004, respectively. Cash flow in 2005 was reinvested in the Trust through:

- expansion capital expenditures and capacity replacement within the Energy Services division;
- maintenance capital expenditures; and
- the acquisition of the assets of four operating companies.

This conservative approach to cash distributions reflects the Trust's continued adherence to a long-term, strategic growth plan, while at the same time demonstrating its commitment to unitholders through ongoing increases in distributions. The monthly distribution increased four times in 2005, from $0.0925 to $0.12 per unit, representing a 30 percent increase to the monthly distribution during the year. In 2006, the monthly distribution was further increased to $0.135 per unit for unitholders of record on March 31, 2006.

The following summary outlines the principal utilization of funds from operations for the twelve months ended December 31, 2005 and 2004:

CCS CASH DISTRIBUTIONS

(000s)	2005	2004
Funds from operations[1]	$ 159,544	$ 107,959
Required principal repayments of long-term debt	(8,230)	(15,673)
Maintenance capital expenditures[1]	(24,973)	(10,096)
Amortization of landfill and cavern capacity[2]	(8,407)	(8,024)
Cash available for distribution and growth capital expenditures[1] (b)	117,934	74,166
Cash retained for growth and capital expenditures	(64,283)	(32,511)
Cash distributions declared (a)	53,651	41,655
Accumulated cash distributions, beginning	89,187	47,532
Accumulated cash distributions, ending	142,838	89,187
Payout ratio[1] (a)/(b)	45.5%	56.0%

1 Non-GAAP financial measures are identified and defined in the Management's Discussion and Analysis under the heading 'Non-GAAP Measures'.

2 Based on amortization expense in the consolidated statements of income and accumulated earnings, this is cash retained to replace utilized landfill capacity. This amortization expense is calculated on a 'unit of capacity utilized' basis.

REVENUE

(000s)	2005	2004
CCS Energy Services	$ 207,623	$ 160,112
% change from prior year	30%	35%
Concord Well Servicing	93,983	78,012
% change from prior year	20%	26%
HAZCO	240,734	9,267
% change from prior year	2,498%	100%
CCS Energy Marketing	396,319	53,185
% change from prior year	645%	100%
Total	938,659	300,576
% change from prior year	212%	67%

Energy Services

The growth in revenue in this division is a result of sustained, higher activity levels at the TRD facilities and incremental revenue generated from facilities constructed in 2004. High oil prices and increased demand for services resulted in a 77 percent year-over-year increase in revenue from the sale of oil recovered from waste. The sale of recovered oil generated 14 percent of total revenue earned by this division in 2005 compared to ten percent in 2004.

Concord

The Concord Well Servicing division's increased revenue for the year is attributable to an overall increase in rig hours and to price increases implemented in the fourth quarters of 2004 and 2005. Concord's 2005 rig operating hours increased by four percent to 130,812 hours (2004 – 125,644 hours). The division added two standby carrier rigs to its fleet during the year; they are deployed when other rigs undergo major repairs or refits. In November 2005, Concord acquired the operating assets of HiAlta Energy Services, an oilfield rental company. HiAlta Energy Services provides a complementary service to the division, with equipment rentals that include: light towers; environmental bins; wellsite trailers; office trailers; rig mats, and other equipment related to oilfield services.

HAZCO

The division generated $240.7 million of revenue in its first full year as a reportable division of the Trust. Strong revenue in 2005 resulted from several large unplanned projects undertaken by the division, as well as mild winter weather, which allowed work to continue uninterrupted through to the year end.

CCS Energy Marketing

Continued high commodity prices and increased volumes of oil purchased and marketed by the division contributed to an increase of $343.1 million in the division's annual revenue over 2004. A significant portion of the revenue earned was generated through oil purchases at the Energy Services TRD facilities where CEM is the single shipper. Single shipper status enables the marketing division to monitor the quality of the oil coming into the facilities and optimize the revenue stream associated with the various grades of oil.

OPERATING MARGIN

(000s)	2005	2004
CCS Energy Services	**$ 130,181**	$ 98,410
% of division revenue	**63%**	62%
Concord	**32,092**	22,997
% of division revenue	**34%**	30%
HAZCO	**36,298**	1,885
% of division revenue	**15%**	20%
CCS Energy Marketing	**7,940**	773
% of division revenue	**2%**	2%
Total	**206,511**	124,065
% of consolidated revenue	**22%**	41%

Energy Services

The Energy Services division's operating margin, as a percentage of revenue, increased by one percent over 2004. The TRD facilities were the primary contributor to this improvement, with higher recovered oil sales and prices that favourably impacted the operating margin. Overall, expenses in the Energy Services division increased in order to meet the higher activity levels, rising to $77.4 million in 2005 from $61.7 million in 2004. The design and quality of the facilities allows the division to

manage volume increases without a corresponding increase in operating expenses. Despite the overall positive management of operating expenses, there were some factors contributing to higher costs, including a significant increase in wages and utilities expense. These higher operating costs mitigated the positive effect of price increases introduced in the first quarter of 2005.

Concord

Concord's operating margin increased to $32.1 million as a result of higher utilization rates and price increases. Operating margin, as a percentage of revenue, increased by four percent in 2005 over 2004 as a result of price increases, strong market activity and a focus on effective cost controls.

HAZCO

HAZCO generated an operating margin, as a percentage of revenue, of 15 percent for the year ended December 31, 2005. Operating margin for this division is expected to fluctuate depending on the volume and type of projects undertaken and the blend of business between remediation projects, engineered landfill services and other services in any given period.

CCS Energy Marketing

The CCS Energy Marketing division's two percent operating margin, as a percentage of revenue, remained unchanged for the years ended December 31, 2005 and 2004. The business model for this division is focused on capturing the incremental value in marketing crude oil through Energy Services facilities. As such, the division is not expected to generate an operating margin, as a percentage of revenue, that is significantly different than that reflected to date. Revenue is recorded at gross value, and as a result, the financial statements reflect a higher dollar value for both revenue and operating expense, creating a lower operating margin as a percentage of revenue.

GENERAL AND ADMINISTRATIVE

(000s)	2005	2004
General and administrative expense	$ 16,824	$ 12,264
% change from prior year	37%	36%

General and administrative expenses have increased year-over-year as a result of the Trust's overall growth. Administrative costs directly related to the individual business segments are included in operating costs of that division.

General and administrative expenses increased in the following areas during 2005:

- wages and benefits, including the recognition of expenses associated with the trust unit option plan and the executive retention bonus plan;
- professional and consulting fees;
- information technology and communications; and
- general office costs.

All of these cost increases are reflective of the ongoing growth of CCS and economic conditions in western Canada which have resulted in escalating labour costs.

DEPRECIATION AND AMORTIZATION

(000s)	2005	2004
Depreciation	**$ 29,462**	$ 21,565
% change from prior year	**37%**	20%
Amortization	**10,293**	8,024
% change from prior year	**28%**	(19%)

The year-over-year increase in depreciation expense of $7.9 million is mainly a result of the acquired HAZCO capital assets generating a full year of depreciation expense in 2005.

Amortization of engineered landfills and disposal caverns totaled $8.4 million for the twelve months ended December 31, 2005 (2004 – $8.0 million). Capacity replacement expenditures on engineered landfills and disposal caverns totalled $10.3 million in 2005. Landfill capacity at all CCS engineered landfills is reviewed twice a year by independent engineering consultants, with capacity adjustments accounted for prospectively. The survey completed in December 2005 resulted in minor capacity adjustments, which will be incorporated in the 2006 amortization expense.

Included in amortization expense for the year is $1.9 million relating to the amortization of intangible assets acquired (2004 – nil).

INCOME TAXES

(000s)	2005	2004
Net income before income taxes	**$ 138,671**	$ 76,204
Provision for income taxes	**32,700**	12,465
Effective tax rate	**24%**	16%

In 2005, the Trust provided for taxes at the effective rate of 24 percent of pre-tax income, compared to 16 percent in 2004. The higher tax rate results primarily from the 82 percent growth in pre-tax income, which is only partially offset by available tax deductions at the operating company level.

From the inception of the Trust in May 2002 to the end of 2004, the Trust's operating subsidiary accumulated sufficient tax pools to offset taxable income and therefore was not subject to current tax except for capital taxes. CCS' continued growth has resulted in available tax pools being utilized more quickly than expected. As a result, tax pool deductions do not fully offset taxable income for 2005, resulting in a provision for current income taxes.

Current tax expense of $24.5 million for the year ended December 31, 2005 consists of $23.6 million of income taxes and $0.9 million of capital taxes. In 2004, the annual provision for current tax was $0.6 million.

FINANCING

(000s)	2005	2004
Interest expense	**$ 8,598**	$ 4,554
% change from prior year	**89%**	2%

Financing charges in 2005 increased as a result of higher average debt outstanding, combined with a 0.25 percent increase in the annual average interest rate paid by the Trust. The average debt outstanding for the year was $140.3 million, an increase of 86 percent over 2004. The significant increase in debt outstanding is attributable to the following:

- the acquisition of HAZCO in December, 2004 required a cash payment of $29.8 million and the assumption of $9.9 million in long-term debt;
- acquisitions in 2005 utilized cash of $13.3 million; and
- capital expenditures of $107.1 million in 2005.

LIQUIDITY AND CAPITAL RESOURCES

(000s)	2005	2004
Capital Data		
Current portion of long-term debt	**$ 2,068**	$ 3,131
Long-term debt	**156,397**	136,503
Less: cash and cash equivalents	**(3,626)**	–
Net debt	**154,839**	139,634
Unitholders' equity	**259,986**	226,834
Non-controlling interest	**69,582**	46,669
Total capitalization	**484,407**	413,137
Net debt to total capitalization	**32%**	34%

Credit Facilities and Swaps

The Trust has the following credit facilities available:

- $210.0 million extendible, three-year revolving facility bearing interest, at CCS' option, at the bank's prime rate, banker's acceptance rate or LIBOR rate plus 0 to 275 basis points, depending on CCS' ratio of debt-to-EBITDA. At December 31, 2005, the Trust had utilized $101.6 million of this facility. Outstanding letters of credit of $25.7 million at December 31, 2005 ($2004 – $20.6 million) reduce the amount of credit available on this facility.

  This facility was amended in January 2006 to increase the Trust's available revolving credit to $310.0 million. The amended facility has a three-year revolving term and bears interest, at CCS' option, at the bank's prime rate, banker's acceptance rate or LIBOR rate plus 0 to 200 basis points.
- $50.0 million seven-year, non-revolving, non-amortizing term facility with a fixed interest rate of 6.4 percent. This facility is fully drawn and is repayable in full on December 10, 2011.
- $6.0 million for the financing of capital equipment, with interest charged on a transactional basis. Fixed and floating-rate options are available. Interest under the fixed option is currently charged at a maximum rate of four percent. Contracts under the floating option bear interest at prime minus 0.7 to prime minus 3.5 percent. At December 31, 2005 the amount outstanding on this facility was $3.2 million. Repayment terms cannot extend beyond five years. CCS will continue to utilize these facilities if the cost to do so minimizes overall borrowing costs to the Trust.

At December 31, 2005, the Trust had $20.7 million of surety bonds outstanding to secure bids and for completion of work, all with respect to the HAZCO operating division. These outstanding bonds do not impact the amount of credit available on any of the facilities.

In accordance with the terms of its credit facilities, CCS must remain in compliance with certain financial and non-financial covenants, as defined by its lenders. At December 31, 2005, CCS was in compliance with all covenants.

In 2002, the Trust entered into a five-year, non-amortizing, interest-rate swap agreement for $18.0 million at a fixed rate of 5.6 percent. In 2003, the Trust entered into additional amortizing swap arrangements of $20.0 million at a fixed rate of 4.1 percent, of which $10.0 million was outstanding at December 31, 2005. With the $50.0 million of fixed-rate debt and the interest-rate swaps currently in place, the Trust has fixed the interest rate on $78.0 million of outstanding debt, representing approximately 49 percent (2004 – 59 percent) of total debt outstanding of $158.5 million.

UNITHOLDERS' EQUITY

(000s)	February 28 2006	December 31 **2005**	2004
Outstanding Unit Data			
Trust units	42,704	**42,679**	41,949
Exchangeable shares[1]	14,535	**14,443**	14,405
Options to purchase trust units	1,483	–	–
Total	58,722	**57,122**	56,354

1 Assuming all exchangeable shares at December 31, 2005 are converted at the period end exchange ratio of 2.54714 (December 31, 2004 – 2.44062)

On December 31, 2005 there were 42.7 million trust units outstanding. Trust unit activity in 2005 included the following:

- On February 15, 2005 the Trust announced a two-for-one trust unit split for unitholders of record on February 28, 2005. Pursuant to the unit split, each holder of units on February 28, 2005 received one additional unit of CCS Income Trust for every trust unit held. The impact of the split on unitholders' equity and per unit information has been retroactively reflected for comparative purposes.
- As a part of the purchase price consideration paid on acquisitions, 0.1 million trust units were issued. These trust unit issuances generated net proceeds of $4.4 million.
- The conversion of exchangeable shares to trust units resulted in the issuance of 0.6 million trust units.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

CCS has entered into various contractual obligations with respect to debt, operating commitments and capital. The following table summarizes CCS' contractual obligations on December 31, 2005:

Contractual Obligations

($000s)	Total	Payments Due by Period < 1 Year	1-3 Years	4-5 Years	> 5 Years
Long-term debt	158,465	2,068	101,397	5,000	50,000
Office leases	3,551	1,336	1,954	225	36
Capital and operating leases	1,075	548	450	77	–
Gas delivery obligation (undiscounted)	10,323	1,377	2,759	2,755	3,432
Pipeline capacity commitment	3,065	341	908	908	908
Total contractual obligations	176,479	5,670	107,468	8,965	54,376

The Trust has entered into various consulting arrangements with respect to international corporate development initiatives. Compensation consists of consulting fees and the commitment to purchase, on behalf of the consultants, CCS Income Trust units on the open market upon the signing of executable, international service contracts. The Trust is contingently obligated to acquire 34 thousand trust units, or pay the cash equivalent thereof; however, to date has not entered into any service contracts.

CAPITAL EXPENDITURES

(000s)	**2005**	2004
Capital expenditures	**$ 107,105**	$ 70,168
% change from prior year	**53%**	(43%)

Energy Services

The Energy Services division incurred capital expenditures of $63.5 million during the year. Growth capital projects comprised the majority of capital expenditures incurred and include the following:

- ongoing construction of a new TRD facility at Brooks, Alberta which is expected to become operational in March, 2006;
- expansion of the waste processing facility at the Coronation, Alberta TRD;
- completion of an oil recovery program utilizing centrifuge technology at seven TRD facilities;
- completion of a new disposal well facility at Moose Creek, Alberta; operations commenced in November, 2005;
- capacity replacement expansions at the Fox Creek, LaGlace and Marshall engineered landfills; all located in Alberta;
- construction of a new TRD in Spirit River, Alberta scheduled for completion in the second quarter of 2006;
- completion of a new engineered landfill at Bonnyville, Alberta; operations commenced in October, 2005; and
- ongoing cavern washing and capacity expansion at the Lindbergh facility.

Concord

Concord Well Servicing incurred capital expenditures of $18.0 million in 2005. The majority of capital expenditures in this division are maintenance capital expenditures. In 2005, Concord incurred $6.1 million in capital expenditures related to the purchase of land and buildings to accommodate its ongoing growth and expansion. The balance of expenditures related to rig refits, rebuilding ancillary rig equipment, bed truck upgrades, and various other projects required to maintain the fleet at an optimal performance level.

HAZCO

The HAZCO division incurred capital expenditures of $24.0 million in 2005, which included the purchase of heavy equipment for the site remediation business unit; the acquisition of additional geotechnical drilling rigs; the purchase of land for a proposed new sulphur facility; and an expansion to the landfill facility in Edson, Alberta.

SEASONALITY OF OPERATIONS

The majority of the Trust's operations take place in Canada where the ability to move heavy equipment in the oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads and oil and gas production sites incapable of supporting the weight of heavy equipment until they are thoroughly dried out. The duration of this 'spring breakup' has a direct impact on activity levels of the Trust and its customers. As a result, each year the Trust tends to record lower revenue and operating profit in the second fiscal quarter.

CHANGES IN ACCOUNTING POLICY

The Trust did not have any changes in accounting policies to report in 2005.

RELATED PARTY TRANSACTIONS

The Trust has a 37.5 percent fractional interest in a Piaggio Avanti P-180 aircraft for use in CCS' operations. Avia Aviation Ltd., a company controlled by the Chairman and CEO of CCS Inc., provides management services and operates the aircraft on behalf of the Trust. For the year ended December 31, 2005, the Trust incurred management fee expense, operating costs and costs for contract air services totaling $0.5 million (2004 – $0.4 million) with Avia Aviation Ltd.

The HAZCO operating division leases facilities from certain members of HAZCO's management and their immediate families. The annual lease payment for these facilities was $0.4 million (2004 – $39 thousand).

All related party transactions are recorded at the exchange amount which represents the fair market value of the services provided.

BUSINESS RISKS

(Reference is also made to the Annual Information Form of CCS Income Trust).

Credit Risk

- The Trust provides environmental solutions for waste management, crude oil sales and marketing, contract oil well services, rental of oilfield equipment and sales of drilling fluids to the oil and gas industry. This results in a concentration of credit risk. The Trust generally extends unsecured credit to these customers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Trust's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which the Trust extends credit.

- Credit exposure on financial instruments, which consists of interest rate swaps and foreign exchange contracts, arises from the possibility that a counter-party, in which the Trust has an unrealized gain, fails to perform according to the terms of the contract. Management believes the risks of non-performance are minimal as the counter-parties are major financial institutions.
- Credit exposure on cash and cash equivalents arises as the Trust holds those assets with major financial institutions. Management believes the risk is mitigated by the size and financial strength of those major financial institutions.

Interest Rate and Commodity Price Risks

- The Trust is exposed to interest rate risk with respect to fluctuating interest rates on its revolving credit facility. The Trust manages this exposure through interest rate swap initiatives, thereby fixing a portion of the interest on outstanding floating rate debt. At December 31, 2005 approximately 26 percent (2004 – 36 percent) of the interest on outstanding floating rate debt was fixed through swap agreements.
- CCS believes its exposure to energy price fluctuations is less than many oilfield service companies because its Energy Services division derives a significant portion of its revenue from activities associated with oil and gas production, as opposed to exploration or drilling activities. During 2005, 14 percent of this division's revenue came directly from the proceeds of the sale of recovered oil. Also, the Concord service rigs have the ability to switch easily from natural gas to light crude activity as commodity prices fluctuate. The service offerings of the HAZCO division provide a level of diversification with customers involved in industries such as transportation, forestry and government.
- Risk factors inherent within the Energy Marketing business include: changes in industry practice with respect to crude oil equalization; market-price risk for commodity, volume and basis exposure; and counterparty credit risk of non-performance. The management of CCS has formalized and approved a risk management policy for this division which clearly defines open position limits, physical contract authorization limits along with counterparty credit rating criteria and maximum counterparty exposure limits. This division is currently not authorized to deal with over-the-counter swaps and options.
- In August 2000, CCS entered into a long-term gas delivery contract with The Canadian Salt Company Limited to deliver 2.4 million gigajoules (GJ) of gas over the term of the contract. CCS is exposed to commodity price fluctuations on future delivery of this gas.

Foreign Exchange Risk

The Trust is exposed to foreign currency risk through the following arrangements:

- Revenue from one long-term service contract that is denominated in U.S. dollars. The Trust has entered into a foreign currency collar contract to mitigate this exposure.
- The Trust has foreign operations through its subsidiary HAZCO del Peru S.A. which operates in Peru. Service contracts, totaling approximately US$13.0 million, and bank accounts are denominated in U.S. dollars, with local operating expenses incurred in the local currency (Nuevos Soles). Excess cash earned by this subsidiary is transferred to a U.S. dollar bank account in Canada.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The December 31, 2005 audited financial statements of the Trust have been prepared by management in accordance with GAAP. Because a precise determination of the valuation of certain revenue, expenses, assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. CCS uses estimates which are based on certain factors, assumptions and methods and which are subject to judgement. Accordingly, actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies.

The components of the Trust's financial statements which incorporate significant assumptions or estimates include:

Asset retirement obligations

CCS is required to provide for the cost of restoring all facilities to a useful and acceptable condition, as determined by regulatory authorities. The nature, timing and cost of the remediation process is managed by the CCS Environmental department, with estimates based upon CCS 'best practices' and current regulatory requirements. An assessment is not made for any facilities with an indeterminate life. At December 31, 2005 the liability for asset retirement obligations was recorded at $20.3 million compared to $18.9 million at December 31, 2004. The increase is due mainly to the addition of new facilities in 2005.

Amortization of CCS engineered landfills and caverns

Waste received at a CCS engineered landfill or cavern is measured in tonnes and converted to cubic metres for depletion and capacity measurement purposes. A density factor, which is used in converting the waste to cubic metres, can change over time due to the type of waste received, compaction, weather and leachate factors. CCS commissions an independent engineering firm to provide an analysis of all engineered landfills and caverns twice a year, with all adjustments prospectively applied.

Gas purchase obligation

The Trust has an outstanding commitment to deliver 2.4 million GJ of natural gas over a 13-year period, ending in 2013. This commitment arose as a component of the purchase consideration provided for in the acquisition of three caverns at the Lindbergh facility. The original value of $5.4 million assigned to this commitment is adjusted quarterly to reflect its estimated fair market value. The fair market value is based on the present value of the future delivery obligation, using an estimate of future gas prices. An increase of $0.10/GJ impacts the undiscounted outstanding obligation by approximately $0.2 million. Any gain or loss resulting from the re-pricing is included in earnings. In 2005, a loss of $2.7 million (2004 – $1.1 million) was recognized due primarily to an increase in estimated future gas prices.

BUSINESS OUTLOOK

At present, the outlook for activity in the western Canadian energy industry for 2006 remains positive. The Trust has forecast its 2006 consolidated capital expenditures to be in the range of $145.0 to $155.0 million. The planned capital spending is comprised of expansion capital of $110.0 to $120.0 million, plus sustaining capital expenditures and capital to replace capacity utilized by engineered landfill and cavern facilities.

Energy Services

Construction continued on schedule at the Brooks TRD facility with start-up anticipated for the first quarter of 2006. The Spirit River TRD start-up is also on track for completion during the second quarter of 2006. Regulatory approval was received for a new TRD in South Grande Prairie, Alberta and construction commenced in February 2006. Two other TRDs are planned for construction in 2006, pending regulatory approval. Expansion capital for the division in 2006 is estimated to be $75.0 to $80.0 million. In 2006, it is anticipated that the ProDrill and Normcan business units, which derive a lower operating margin as a percentage of revenue, will generate higher revenue, impacting the overall operating margin percentage for the division.

Concord

Continued high utilization rates are expected for 2006, as the industry maintains its growth pace. Demand is expected to be high, however, skilled labour shortages and a potential early spring breakup may present challenges to the division. Expansion capital of $2.0 to $3.0 million is planned for 2006. Concord will continue to explore additional growth opportunities in 2006.

HAZCO

Consistent with prior years, operating results in this division are affected by seasonality, with the second half of the year typically yielding higher revenue and operating margin compared to the first half of the year. Expansion capital is forecast to be approximately $30.0 million for 2006, including two new engineered landfills and a sulphur handling facility. All the new facilities are at the regulatory approval stage.

CCS Energy Marketing

The Energy Marketing division continues to experience strong results due to strong industry activity and variable crude oil and condensate differentials. Annual operating margin is expected to be in the range of one to three percent for the year ended December 31, 2006. The business model for this division continues to be focused on the marketing of crude oil recovered or purchased at the Energy Services facilities, with growth dependent on optimization and lease purchases.

DISCLOSURE CONTROLS AND PROCEDURES RELATED TO FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) on a timely basis. This allows appropriate decisions to be made regarding public disclosure. As of December 31, 2005 both the CEO and the CFO participated in the design and evaluated the effectiveness of CCS' disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators. They have concluded that such disclosure controls and procedures are effective.

Management's Responsibility for Financial Reporting

The consolidated financial statements included in this annual report of CCS Income Trust for the year ended December 31, 2005 are the responsibility of the management of the Trust and have been approved by the Board of Directors. Management has prepared the financial statements in accordance with Canadian Generally Accepted Accounting Principles, with financial information presented elsewhere in this annual report consistent with that in the financial statements.

Management has developed and maintains a comprehensive system of internal controls which provides assurance that transactions are recorded and executed in compliance with legislation and required authority, to ensure assets are properly safeguarded and that reliable financial records are maintained.

The independent chartered accounting firm of Ernst & Young has been appointed by the unitholders of the Trust to examine the financial statements, and has expressed an opinion thereon. Their auditors' report is included with the financial statements. The Board of Directors has established an Audit Committee to review the financial statements with management and the auditors, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the financial statements.

David P. Werklund
CEO and President, Chairman of the Board
March 8, 2006

Marshall L. McRae, C.A.
Chief Financial Officer

Auditors' Report

We have audited the consolidated balance sheets of CCS Income Trust as at December 31, 2005 and 2004 and the consolidated statements of income and accumulated earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian Generally Accepted Accounting Principles.

Ernst & Young LLP

Chartered Accountants
Calgary, Canada
March 8, 2006

Consolidated Balance Sheets

As at December 31 (000s)	**2005** **$**	2004 $
ASSETS *[note 9h]*		
Current assets		
Cash and cash equivalents	**3,626**	–
Accounts receivable *[note 10b]*	**158,450**	112,763
Inventory and other current assets	**10,432**	4,704
	172,508	117,467
Property, plant and equipment *[note 7]*	**443,103**	365,862
Goodwill *[note 5]*	**51,295**	47,397
Intangible assets *[note 5]*	**8,456**	6,482
Deferred financing costs *[note 9f]*	**1,189**	1,711
Investments and other long-term assets	**1,280**	446
Total assets	**677,831**	539,365
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**87,806**	59,044
Income taxes payable	**23,710**	1,038
Distributions payable	**5,121**	3,880
Current portion of long-term debt *[note 9]*	**2,068**	3,131
Current portion of long-term purchase obligations *[note 16]*	**1,311**	1,002
Current portion of asset retirement obligations *[note 8]*	**1,373**	3,633
	121,389	71,728
Long-term debt *[note 9]*	**156,397**	136,503
Long-term purchase obligations *[note 16]*	**6,397**	5,444
Future income tax *[note 17]*	**45,127**	36,927
Asset retirement obligations *[note 8]*	**18,953**	15,260
Total liabilities	**226,874**	194,134
Commitments and contingencies *[note 15]*		
Non-controlling interest *[note 14]*	**69,582**	46,669
UNITHOLDERS' EQUITY		
Unitholders' capital *[note 12a]*	**197,237**	190,200
Contributed surplus *[note 12c]*	**605**	–
Accumulated earnings	**204,982**	125,821
Accumulated cash distributions	**(142,838)**	(89,187)
Total unitholders' equity	**259,986**	226,834
Total liabilities and unitholders' equity	**677,831**	539,365

See accompanying notes

On behalf of the Board:

Director
David P. Werklund

Director
Brad R. Munro

Consolidated Statements of Income and Accumulated Earnings

For the years ended December 31 (000s except per unit amounts)	2005 $	2004 $
REVENUE		
CCS Energy Services	**207,623**	160,112
Concord Well Servicing	**93,983**	78,012
HAZCO Environmental Services	**240,734**	9,267
CCS Energy Marketing	**396,319**	53,185
	938,659	300,576
Operating expenses *[note 19]*	**730,592**	175,453
Asset retirement accretion expense *[note 8]*	**1,556**	1,058
	732,148	176,511
Operating margin	**206,511**	124,065
EXPENSES		
General and administrative *[note 19]*	**16,824**	12,264
Financing *[note 11]*	**8,598**	4,554
Gas delivery obligation valuation *[note 16]*	**2,714**	1,059
Depreciation and amortization	**39,755**	29,589
	67,891	47,466
Income before the following:	**138,620**	76,599
Loss (gain) on sale of assets	**(51)**	395
Income before income taxes:	**138,671**	76,204
Income taxes *[note 17]*		
Current	**24,500**	610
Future	**8,200**	11,855
	32,700	12,465
Income before non-controlling interest:	**105,971**	63,739
Non-controlling interest *[note 14]*	**(26,810)**	(16,317)
Net income for the year	**79,161**	47,422
Accumulated earnings, beginning of year	**125,821**	78,399
Accumulated earnings, end of year	**204,982**	125,821
Per unit information *[note 12b]*		
Basic	**1.88**	1.19
Diluted	**1.87**	1.18

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31 (000s)	**2005** $	2004 $
OPERATING ACTIVITIES		
Net income for the year	**79,161**	47,422
Add (deduct) non-cash items:		
Non-controlling interest	**26,810**	16,317
Unit based compensation *[note 13a]*	**605**	–
Depreciation and amortization	**39,755**	29,589
Asset retirement accretion expense	**1,556**	1,058
Gas delivery obligation valuation	**2,714**	1,059
Loss (gain) on sale of assets	**(51)**	395
Future income taxes	**8,200**	11,855
Other non-cash operating items	**794**	264
	159,544	107,959
Change in non-cash working capital *[note 18]*	**1,217**	(46,702)
Asset retirement obligations fulfilled *[note 8]*	**(985)**	(480)
Cash provided by operating activities	**159,776**	60,777
FINANCING ACTIVITIES		
Issuance of long-term debt	**58,922**	168,620
Repayment of long-term debt	**(40,363)**	(109,761)
Deferred financing costs	**–**	(1,042)
Payments under purchase obligations	**(1,452)**	(1,605)
Trust unit issue (net of costs) *[note 12a]*	**(4)**	(51)
Distribution payments *[note 3]*	**(52,410)**	(41,029)
Cash (used in) provided by financing activities	**(35,307)**	15,132
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(107,105)**	(70,168)
Proceeds on disposal of property, plant and equipment	**2,845**	1,095
Acquisitions *[note 4]*	**(13,337)**	(30,275)
Funding of retention bonus *[note 13b]*	**(1,231)**	–
Investments and other long-term assets	**(834)**	(60)
Change in non-cash working capital *[note 18]*	**(1,181)**	18,620
Cash used in investing activities	**(120,843)**	(80,788)
Increase (decrease) in cash and cash equivalents	3,626	(4,879)
Cash and cash equivalents, beginning of year	–	4,879
Cash and cash equivalents, end of year	3,626	–

See accompanying notes

December 31, 2005 and 2004
(000s except unit and per unit amounts)

1. NATURE OF THE ORGANIZATION

CCS Income Trust (the "Trust") was formed for the purpose of effecting an arrangement (the "Arrangement") under the Business Corporations Act (Alberta), involving, among other things, the exchange of Canadian Crude Separators Inc. ("Canadian Crude Separators") securities on a one-to-one basis, for either trust units of the Trust or Series A exchangeable shares ("exchangeable shares") of CCS Inc., a wholly owned subsidiary of the Trust, as disclosed in the CCS Information Circular ("Information Circular") dated April 19, 2002. The effective date of the Arrangement was May 22, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The consolidated financial statements of the Trust have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ significantly from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies summarized below.

All amounts reported in these statements are in Canadian dollars.

b) Principles of consolidation

These consolidated financial statements include the accounts of CCS Income Trust, its subsidiaries, as well as its proportionate share of joint venture interests. Non-controlling interest, which exists through the exchangeable shares in the Trust's wholly owned subsidiary, CCS Inc., is reported on the consolidated balance sheets.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with maturities less than three months.

d) Inventory

Inventory consists of drilling fluids, oilfield supplies and crude oil, all of which are valued at the lower of weighted average cost and net realizable value.

e) Investments

Investments are carried at cost and written down only when a decline in value that is other than temporary has occurred.

f) Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized over their estimated useful lives (net of salvage value) at the following annual rates:

Processing facilities	– five percent to 30 percent declining balance
Cavern and landfill facilities	– units of total capacity used in a period
Service rigs	– straight-line over 15 years with 20 percent residual value
Environmental and geotechnical drilling rigs	– 20 percent declining balance
Buildings	– five percent declining balance
Mobile equipment	– seven percent to 30 percent declining balance
Rental equipment	– straight line over 15 years
Furniture and equipment	– 25 to 30 percent declining balance
Airplane, fractional interest	– straight-line over 12 years with no residual value

Service rigs require major refits at regular intervals during the life of the service rigs, the cost of which is capitalized and amortized on a straight-line basis over 15 years with a 20 percent residual value.

Land, construction in progress and the cost of pipeline line-fill are excluded from amortization and are subject to impairment tests in accordance with the accounting policy on Impairment of Long-lived Assets.

g) Capitalized interest

Interest is capitalized on major development projects until the asset is complete and ready for its intended use. A major development project is a project with an acquisition or construction cost (excluding capitalized interest) greater than $20,000, and a construction period of twelve months or longer. The Trust must be in an interest paying situation during the construction phase of the project.

h) Impairment of long-lived assets

All non-monetary long-lived assets held for use, including property plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets are subject to review for asset impairment. Impairment is recognized if the carrying value of the asset exceeds the sum of the undiscounted cash flows expected to result from that asset. A long-lived asset must be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The Trust conducts asset impairment reviews on a quarterly basis.

i) Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is not subject to amortization. Intangible assets are comprised of non-compete agreements, marketing contracts, customer relationships, trade names, order backlog and certificates of approval. These assets are amortized on a straight-line basis over a period of one to seven years, with the exception of certificates of approval which have an indefinite life. Goodwill and intangible assets are tested for impairment on an annual basis, or more frequently if events or

circumstances indicate the asset may be impaired. The impairment test includes the application of a fair value test, with an impairment loss recognized as an expense where the carrying amount of the asset exceeds its fair value.

j) Asset retirement obligations

The Trust determines its asset retirement obligation associated with the retirement of tangible long-lived assets at the plant or facility level. The Trust recognizes the fair value of an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of fair value can be made. Fair value is determined through a review of engineering and environmental studies, industry guidelines, and management's estimate. The initial fair value of the obligation is capitalized to property, plant and equipment and amortized over the useful life of the related productive assets; amortization is included as a component of depreciation and amortization expense.

The asset retirement liability accretes until the time the obligation is expected to settle, with accretion expense recognized as a component of operating expense. The liability is adjusted to reflect revisions in the estimated timing and/or amount of the cash flows associated with the liability.

k) Income taxes

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on income that is not distributed or distributable to the unithholders. The Trust follows the liability method to account for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse.

l) Derivative financial instruments

Derivative financial instruments are utilized by the Trust in the management of its interest rate and foreign currency exposures. The Trust does not utilize derivative financial instruments for trading or speculative purposes. Any realized gains or losses on derivative contracts that are not designated hedges are recognized in income in the period they occur.

The Trust enters into interest rate swaps in order to manage the impact of fluctuating interest rates on its floating rate debt and to manage the overall cost of borrowing on its total debt portfolio. The interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. All payments are recognized in interest expense in the period to which they relate.

The Trust may also enter into derivative financial instruments to hedge against adverse fluctuations in foreign exchange rates. Payments or receipts on derivative financial instruments used to hedge the currency risk of cash flows from foreign currency denominated transactions are recognized concurrently with the hedged cash flows. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Gains or losses resulting from changes in the fair value of derivative contracts that do not qualify for hedge accounting are recognized in earnings and cash flows when those changes occur.

The Trust's gas delivery obligation is re-priced at the end of each reporting period based on the present value of the future delivery obligation using a future gas price curve. Any gain or loss resulting from the re-pricing is included in earnings immediately.

m) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at rates of exchange in effect at the end of each reporting period. Non-monetary assets and related depreciation, depletion and amortization, non-monetary liabilities, and revenue and expenses are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains and losses are included in general and administrative expenses.

n) Non-controlling interest

The Trust recognizes non-controlling interest in accordance with the recommendations of EIC-151. Non-controlling interest on the consolidated balance sheets is comprised of the carrying value of the exchangeable shares plus the accumulated earnings attributable to the non-controlling interest. Consolidated net income is reduced by the portion of earnings attributable to the non-controlling interest. As the exchangeable shares are converted to trust units, non-controlling interest on the consolidated balance sheets is reduced by the cumulative book value and cumulative earnings attributable to the exchangeable shares converted and unitholders' capital is increased by the corresponding amount.

o) Revenue recognition

Revenue recognized through the provision of services in the CCS operating segments is reported in the period services are provided or performed and when collectability is reasonably assured. A summary of services provided includes the following:

- the provision of environmental solutions for waste management;
- sales of drilling fluids;
- storage services to the oil and gas industry;
- facility de-commissioning and demolition;
- well completions, workovers and other well servicing related services; and
- oilfield equipment rentals.

Revenue associated with the marketing of crude oil is recognized when title passes from the Trust to its customers. All revenue is recorded on a gross basis.

p) Unit based compensation

The Trust established an employee unit option plan (the "Plan") for employees, directors, and consultants who otherwise meet the definition of an employee of the Trust. The Trust accounts for the options using the fair value method, whereby the fair value of options is determined on the date in which fair value can initially be determined. The fair value is then recorded as compensation expense on a straight-line basis, over the period that the options vest, with a corresponding increase to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded to unitholder's capital.

q) Measurement uncertainty

Certain items recognized in the financial statements are subject to measurement uncertainty as they are based on management's estimates using current information and judgment. The effect on the financial statements of changes in such estimates in future periods could be significant. The recognized items include:

- Property, plant and equipment, goodwill and intangible assets, the values of which are subject to market conditions in the oil and gas and environmental remediation industries;
- Amortization of engineered landfills, the expense of which is impacted by the type of waste received, compaction and weather and leachate factors;
- Amortization of disposal caverns, the expense of which is impacted by the type of waste received, the ability to recover and process waste oil in the caverns, and uncertainty over total cavern capacity available;
- The quality, quantity and recoverability of oil contained in the disposal caverns, which accumulates through the waste disposal process; the value of recovered oil is recognized when sold;
- Gas delivery obligation, the cost of which is dependent on future gas prices; and
- Asset retirement obligations, the nature, timing and costs of the remediation process are managed by the CCS Environmental department, with estimates based upon CCS' "best practices" and current regulatory requirements.

r) Reclassification

Certain information provided for prior years has been reclassified to conform to the presentation adopted in 2005.

3. DISTRIBUTIONS

During the year the Trust paid distributions to unitholders in the amount of $52,410 (2004 – $41,029) and declared distributions of $53,651 (2004 – $41,655) in accordance with the following schedule:

Period Covered	Date of Record	Date of Distribution	Per Unit $
December 1, 2004 to December 31, 2004	12/31/04	01/17/05	0.0925
January 1, 2005 to January 31, 2005	01/31/05	02/15/05	0.0925
February 1, 2005 to February 28, 2005	02/28/05	03/15/05	0.0975
March 1, 2005 to March 31, 2005	03/31/05	04/15/05	0.0975
April 1, 2005 to April 30, 2005	04/30/05	05/16/05	0.0975
May 1, 2005 to May 31, 2005	05/31/05	06/15/05	0.1050
June 1, 2005 to June 30, 2005	06/30/05	07/15/05	0.1050
July 1, 2005 to July 31, 2005	07/31/05	08/15/05	0.1050
August 1, 2005 to August 31, 2005	08/31/05	09/15/05	0.1100
September 1, 2005 to September 30, 2005	09/30/05	10/17/05	0.1100
October 1, 2005 to October 31, 2005	10/31/05	11/15/05	0.1100
November 1, 2005 to November 30, 2005	11/30/05	12/15/05	0.1200
December 1, 2005 to December 31, 2005	12/31/05	01/16/06	0.1200

4. ACQUISITIONS

During the year, the Trust acquired the operating assets of four companies: Normcan Control Inc. (Normcan); Canadian Soil Remediation Services Inc. (CSR); Western Waste Management Ltd. (WWM) and HiAlta Energy Services (HiAlta). Normcan, CSR and WWM were acquired in July, 2005 and HiAlta Energy Services was acquired in November, 2005. Earnings from these acquisitions are included in income from the respective dates of acquisition. Normcan specializes in providing the Canadian oil and gas industry with expertise in the safe management, handling and disposal of naturally occurring radioactive material (NORM). CSR is an environmental site remediation contractor with operations based in Ontario. WWM is based in British Columbia and provides environmental filtration and tank rental services. HiAlta Energy Services supplies rental equipment to the oil and gas industry for both the drilling and production sectors. The combined purchase price for the four acquisitions consisted of a combination of $13,329 in cash, and 145,919 trust units. The fair value assigned to the trust units was determined using market rates in accordance with each respective purchase agreement. Normcan's operations are reported within the Energy Services division, CSR and WWM are reported within the HAZCO division, and HiAlta Energy Services is reported within the Concord division.

The purchase price has been allocated using the purchase method of accounting as follows:

	2005 $	2004 $
Net assets acquired		
Working capital	**17**	7,175
Property, plant and equipment	**9,937**	37,127
Goodwill and intangible assets	**7,758**	44,712
Asset retirement obligations	–	(1,977)
Future income taxes	–	(7,487)
Long-term debt	–	(9,875)
	17,712	69,675
Consideration		
Trust units	**4,375**	36,000
Cash	**13,329**	29,776
Promissory note payable	–	3,400
Transaction costs	**8**	499
	17,712	69,675

5. GOODWILL AND INTANGIBLE ASSETS

	Net Book Value Dec 31, 2004	Additions	Amortization	**Net Book Value Dec 31, 2005**
Goodwill	47,397	3,898	–	**51,295**
Intangible assets				
Marketing contracts	2,478	–	(354)	**2,124**
Customer relationships	1,011	2,140	(383)	**2,768**
Non-compete agreements	2,588	1,010	(586)	**3,012**
Certificates of approval[1]	–	360	–	**360**
Trade name	–	220	(28)	**192**
Order backlog	405	130	(535)	–
	6,482	3,860	(1,886)	**8,456**
Goodwill and Intangible assets	53,879	7,758	(1,886)	**59,751**

[1] Not subject to amortization

6. JOINT VENTURES

The Trust has the following joint venture interests:

- a 50 percent interest with voting rights equivalent to the other joint venture party, in Hardisty Caverns Limited Partnership, which owns and operates an underground cavern for storing crude oil. The joint venture was established between CCS and Enbridge Inc. in 2003.
- a 50 percent interest with voting rights equivalent to the other joint venture party, in a joint venture established between HAZCO and Komex International Ltd. The joint venture was established in 2001 and is involved in the remediation and commercial development of land acquired in northern Alberta.

The Trust's interest in these joint ventures is accounted for using the proportionate consolidation method. Under this method, the Trust's proportionate share of income, expenses, assets, liabilities and cash flows of the joint ventures is included in the Trust's balance sheets, statements of income and accumulated earnings, and cash flows.

The following amounts are included in the Trust's consolidated financial statements before consolidation eliminations:

	2005 **$**	2004 $
Cash	**646**	424
Current assets	**253**	1,016
Property, plant and equipment	**34,527**	35,413
Other long-term assets	**–**	48
Current liabilities	**(1,063)**	(1,359)
Net income	**3,259**	3,515
Cash flows:		
Operating activities	**4,882**	2,340
Financing activities	**(4,113)**	(1,532)
Investing activities	**(549)**	(1,805)
	220	(997)

7. PROPERTY, PLANT AND EQUIPMENT

2005	Cost $	Accumulated Depreciation and Amortization $	Net Book Value $
Processing, cavern and landfill facilities	**354,297**	**98,881**	**255,416**
Service rigs, environmental and geotechnical drilling rigs	**88,328**	**22,748**	**65,580**
Buildings	**28,477**	**5,524**	**22,953**
Mobile equipment	**50,472**	**9,965**	**40,507**
Rental equipment	**3,599**	**40**	**3,559**
Furniture and equipment	**7,917**	**4,479**	**3,438**
Land	**8,990**	**–**	**8,990**
Airplane, fractional interest *[note 19a]*	**2,901**	**523**	**2,378**
Pipeline line-fill	**1,396**	**–**	**1,396**
Construction in progress	**38,886**	**–**	**38,886**
	585,263	**142,160**	**443,103**

2004	Cost $	Accumulated Depreciation and Amortization $	Net Book Value $
Processing, cavern and landfill facilities	306,139	78,323	227,816
Service rigs, environmental and geotechnical drilling rigs	79,135	17,826	61,309
Buildings	20,291	4,108	16,183
Mobile equipment	29,266	3,402	25,864
Rental equipment	–	–	–
Furniture and equipment	6,588	2,669	3,919
Land	5,991	–	5,991
Airplane, fractional interest *[note 19a]*	2,901	281	2,620
Pipeline line-fill	1,087	–	1,087
Construction in progress	21,073	–	21,073
	472,471	106,609	365,862

8. ASSET RETIREMENT OBLIGATIONS

The Trust estimates the undiscounted cash flows related to asset retirement obligations, to be incurred over an estimated period of 20 to 30 years, will total approximately $56,807 using an inflation rate of three percent. The fair value at December 31, 2005 is $20,326 using a discount rate of eight percent. In 2005 and 2004, the Trust recorded the following activity related to the liability:

	2005 $	2004 $
Asset retirement obligations, beginning of year	**18,893**	18,105
New obligations and revised estimates	**862**	210
Obligations fulfilled	**(985)**	(480)
Accretion expense	**1,556**	1,058
Asset retirement obligations, end of year	**20,326**	18,893
Less: current portion	**1,373**	3,633
Long-term portion	**18,953**	15,260

9. LONG-TERM DEBT

	2005 $	2004 $
Credit facilities *[note 9a]*	**151,623**	128,490
Bank and finance company loans [9b]	**3,170**	7,744
Promissory note payable [9c]	**3,672**	3,400
Long-term debt	**158,465**	139,634
Less: current portion	**2,068**	3,131
Long-term portion	**156,397**	136,503

a) Credit Facilities

	2005 $	2004 $
Extendible revolving facility – Facility A $210,000, three-year extendible, revolving facility bearing interest, at the Trust's option, at either the bank's prime ("Prime") rate, bankers' acceptance ("BA") rate or LIBOR rate plus 0 to 275 basis points, with any unused amounts subject to standby fees. Drawings under Facility A are repayable in full in December 2007 unless extended at the approval of the Lenders.	**101,623**	78,490
Term facility – Facility B $50,000, 7-year non-revolving, non-reducing term facility bearing interest at a fixed rate of 6.374 percent. Facility B is repayable in full in December 2011.	**50,000**	50,000
	151,623	128,490

Outstanding letters of credit at December 31, 2005 totaled $25,741 (2004 – $20,647). The outstanding letters of credit effectively reduce the amount available under Facility A. At December 31, 2005, the Trust had $20,658 of surety bonds outstanding to secure bids and for completion of work, all with respect to the HAZCO operating division. These outstanding bonds do not impact the amount of credit available on any of the facilities.

b) Bank and finance company loans

During the year, the Trust repaid a $4,700 revolving term bank loan bearing interest at prime plus 0.25 percent.

The Trust has available a $6,000 term loan facility with an equipment manufacturer's finance company. The interest rates associated with these loans range from prime minus 0.70 percent to prime minus 3.50 percent for floating rate debt, and zero to four percent for fixed rate debt. Repayment terms cannot extend beyond five years. The equipment purchased through this facility is secured as collateral against the outstanding debt obligation.

c) Promissory note payable

On December 10, 2004 the Trust issued a non-interest bearing promissory note payable with a face value of $5,000 as part of the purchase price consideration in the HAZCO acquisition. The note is discounted at a rate of eight percent to reflect its current fair market value; 2005 – $3,672 (2004 – $3,400). The note is repayable in full on December 10, 2009.

d) Minimum annual repayments

The minimum annual principal repayments of long-term debt over the next five years are as follows:

	$
2006	2,068
2007	101,359
2008	38
2009	5,000
2010	–
Thereafter	50,000
	158,465

e) Effective interest rates

The average effective interest rate on the floating and fixed rate long-term debt in 2005 was 5.25 percent (2004 – 5.0 percent).

f) Deferred financing costs

Costs associated with extending, amending and restating the credit agreement are deferred and amortized on a straight-line basis over the term of the debt agreement. For the year ended December 31, 2005, $522 (2004 – $264) was amortized to financing charges on the consolidated statements of income and accumulated earnings, bringing the total unamortized costs to $1,189 at December 31, 2005 (2004 – $1,711).

g) Interest rate swap agreement

On May 23, 2003 the Trust entered into a four-year non-amortizing interest rate swap agreement for $18,000 at a fixed rate of 5.6 percent. On May 29, 2003, the Trust entered into a $20,000 five-year amortizing interest rate swap agreement at a fixed rate of 4.1 percent.

As at December 31, 2005, the cost to settle the $18,000 swap would be $516 (2004 - $1,161). The cost to settle the $20,000 swap, which has been amortized to $10,000 at December 31, 2005, would be $32 (2004 - $259). These amounts have not been reflected in the financial statements.

h) Financial security on all facilities

A general assignment of assets, insurance, guarantees of material subsidiaries, a fixed charge on all major assets, and a floating charge over all the assets of the Trust have been pledged as collateral for the facilities.

i) Debt covenants

Under the terms of the credit facilities, the Trust must comply with certain financial and non-financial covenants, as defined by its lenders. Throughout 2005, and as at December 31, 2005, the Trust was in compliance with all of these covenants.

10. FINANCIAL INSTRUMENTS

a) Fair values of financial assets and liabilities

The Trust has financial instruments on its consolidated balance sheet consisting of cash equivalents, accounts receivable, investments, accounts payable, income taxes payable, distributions payable, long-term debt, and long-term purchase obligations. The carrying value of these instruments approximates fair value unless otherwise stated.

b) Credit risk

The Trust provides environmental solutions for waste management, crude oil sales and marketing, contract oil well services, rental of oilfield equipment and sales of drilling fluids to the oil and gas industry. This results in a concentration of credit risk. The Trust generally extends unsecured credit to these customers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Trust's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which the Trust extends credit.

Credit exposure on financial instruments, which consists of interest rate swaps, arises from the possibility that a counter-party in which the Trust has an unrealized gain fails to perform according to the terms of the contract. Management believes the risks of non-performance are minimal as the counter-parties are major financial institutions.

Credit exposure on cash and cash equivalents arises as the Trust holds those assets with major financial institutions. Management believes the risk is mitigated by the size and financial strength of those major financial institutions.

c) Interest rate risk

The Trust is exposed to interest rate risk with respect to fluctuating interest rates on its revolving credit facilities. The Trust manages this exposure through interest rate swap initiatives, thereby fixing a portion of the interest on outstanding floating interest rate debt. At December 31, 2005, approximately 26 percent (2004 – 36 percent) of the interest on outstanding floating interest rate debt was fixed through swap agreements [note 9g].

d) Foreign exchange risk

The Trust has exposure to foreign exchange fluctuations on revenue from the Hardisty Caverns Limited Partnership that is denominated in United States (US) dollar currency. The Trust has protected this revenue stream by entering into a 57 month foreign exchange collar agreement that allows the Trust to sell its US dollars within a fixed range of $1.25 to $1.3513. The agreement commenced on January 25, 2004, and will expire on September 25, 2008. This instrument has a fair value receivable of $1,247 as at December 31, 2005 (2004 – $1,188).

The Trust has exposure to foreign exchange fluctuations on service contracts executed by HAZCO del Peru S.A., which operates in Peru. Service contracts and bank accounts are denominated in US dollars, with local operating expenses incurred in the local currency (Nuevos Soles). Excess cash earned by this company is transferred to a US dollar bank account in Canada.

11. FINANCING CHARGES

Financing expense is comprised of the following:

	2005 **$**	2004 $
Interest on long-term debt	**7,395**	3,424
Recognized loss on interest rate swap	**681**	873
Interest on bank indebtedness	–	168
Amortization of deferred financing costs *[note 9f]*	**522**	264
Interest income	–	(175)
Net financing expense	**8,598**	4,554

12. UNITHOLDERS' EQUITY

On February 15, 2005 the Trust announced a split of the Trust's units on a two-for-one basis, effective at the close of business on February 28, 2005. All information in these consolidated financial statements relating to unit and per unit data, including comparative figures, has been adjusted retroactively to reflect the impact of the unit split.

a) Unitholders' capital

Authorized – Unlimited number of voting trust units	Trust Units	Amount $
December 31, 2003	39,441,440	153,876
Issued upon conversion of exchangeable shares for trust units	315,084	375
Issued upon acquisition of HAZCO (net of costs)	2,192,448	35,949
December 31, 2004	41,948,972	190,200
Issued upon conversion of exchangeable shares for trust units	583,633	612
Issued upon acquisitions (net of costs) *[note 4]*	145,919	4,371
Units held in trust for retention bonus *[note 13b]*	–	(1,231)
Adjustment for exchangeable share conversions	–	3,285
December 31, 2005	**42,678,524**	**197,237**

b) Weighted average trust units

As at December 31, 2005 and 2004 respectively, net income per trust unit has been determined based on the following:

	2005 **$**	2004 $
Weighted average trust units outstanding – basic	**42,192,490**	39,779,968
Trust units issuable on conversion of exchangeable shares *[note 14]*	**14,442,648**	14,404,686
Dilutive options	**72,366**	–
Dilutive trust units and exchangeable shares	**56,707,504**	54,184,654

c) Contributed surplus

As at December 31, 2005 and 2004 respectively, contributed surplus is comprised of the following:

	2005 **$**	2004 $
Unit-based compensation expense	**605**	–
Reclassification to unitholders' capital on exercise of options	–	–
	605	–

13. UNIT-BASED COMPENSATION

a) Unit option plan

Effective January 2005, the Unitholders of CCS Income Trust approved the implementation of an employee unit option plan. Under the unit option plan, directors, officers, employees, and consultants of the Trust are eligible to receive options to acquire trust units, with terms not to exceed five years from the date of the grant. The exercise price is based on the weighted average price of the units for the five trading days immediately prior to the grant date, which may differ from the closing price on the Toronto Stock Exchange for such units on the day of the grant. For options granted in 2005, the exercise price was not materially different from the trading price of the units on the grant date. Under the unit option plan, vesting periods are determined by the Board of Directors of CCS Inc. at the time of the grant.

For all options granted to December 31, 2005, 25 percent of the options are exercisable annually on the anniversary date of the original grant.

The maximum number of trust units issuable under this plan may not exceed ten percent of the Trust's outstanding units, which is the issued and outstanding units on a non-diluted basis, but including all units issuable on conversion of all outstanding exchangeable shares, at any time, which at December 31, 2005 totaled 57,121,172.

A summary of option transactions are as follows:

Year ended December 31, 2005	Units	Weighted average exercise price $
Options outstanding, beginning of year	–	–
Granted	**815,000**	**24.04**
Exercised	–	–
Forfeited	**(45,500)**	**22.42**
Options outstanding, end of year	**769,500**	**24.14**

		Options outstanding		Options exercisable	
Range of prices	**Outstanding at Dec 31, 2005**	Weighted average remaining contractual life	Weighted average exercise price $	Number exercisable at Dec 31, 2005	Weighted average exercise price $
22.04 – 27.00	**507,425**	4.0	22.04	–	–
27.01 – 32.00	**257,075**	4.4	28.04	–	–
32.01 – 35.92	**5,000**	4.9	35.92	–	–
	769,500	4.1	24.14	–	–

The estimated weighted average fair value of options granted for the year ended December 31, 2005 was $4.11 per option. The fair value of each option grant was estimated on the date of the grant, and determined using the Black-Scholes option-pricing model with the following assumptions:

Year ended December 31, 2005	Weighted average assumptions
Dividend yield	**4.80**
Discount for forfeiture	**3.00%**
Risk-free interest rate	**3.51%**
Expected life of options	**4.4 years**
Expected volatility factor of the future expected market price of trust units	**27.08%**

The Trust recorded compensation expense of $605 with an offsetting increase to contributed surplus in respect of the options granted for the year ended December 31, 2005.

b) Retention bonus

The Board of Directors of CCS Inc. approved a one-time retention bonus for executives of CCS Inc. on December 17, 2004. The retention bonus was funded in June, 2005 through the purchase of 40,849 units of the Trust on the open market at a cost of $1,231. The units vest to the executives in equal amounts on January 1, 2006, 2007, and 2008, providing the executives are employed with the Trust at the time of vesting. The trust unit purchase was charged to unitholders' capital until such time as the units vest and are distributed. At December 31, 2005 $410 of the bonus was accrued and charged to general and administrative expense.

14. NON-CONTROLLING INTEREST

In 2004, the Trust retroactively adopted the CICA's recommendations in EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts". In accordance with this accounting abstract, the exchangeable shares issued by CCS Inc. are considered transferable to third parties and must therefore be reflected as non-controlling interest. Previously, the exchangeable shares were reflected as a component of unitholders' equity.

Non-controlling interest on the consolidated balance sheets is comprised of the carrying value of the exchangeable shares upon issuance plus the accumulated earnings attributable to the non-controlling interest. The net income attributable to the non-controlling interest on the consolidated statements of income and accumulated earnings represents the cumulative portion of net income attributable to the non-controlling interest, based on the proportion of trust units issuable for exchangeable shares to total trust units issued and issuable at each period end during the year.

	Exchangeable shares	$
Carrying value of exchangeable shares	5,902,060	15,567
Accumulated earnings attributable to NCI – prior years	–	31,102
Balance at December 31, 2004	5,902,060	46,669
NCI interest in net income – 2005	–	26,810
Adjustment to accumulated earnings on conversion to trust units	–	(3,285)
Redeemed upon conversion to trust units	(231,917)	(612)
Balance at December 31, 2005	5,670,143	69,582

Exchangeable Shares

The exchangeable shares are convertible at the option of the holder into trust units at any time. All exchangeable shares are required to be converted on or before May 21, 2012, subject to extension to such other later date that the Board of Directors may determine in its sole discretion. The number of trust units issuable upon conversion is based upon the exchange ratio in effect at the conversion date. The exchange ratio, which was initially equal to one to one, is cumulatively adjusted each time a distribution is made to unitholders. The adjustment to the exchange ratio is based on the cash distributions paid to unitholders divided by a weighted average trust unit price. The exchange ratio at December 31, 2005 was 2.54714 (December 31, 2004 – 2.44062) and has been adjusted to reflect the impact of the February 28, 2005 two-for-one trust unit split as described in note 12.

Exchangeable shares	2005 Shares	2005 $	2004 Shares	2004 $
Balance, beginning of year	**5,902,060**	**15,567**	6,036,413	15,942
Redeemed upon conversion to trust units	**(231,917)**	**(612)**	(134,353)	(375)
Balance, end of year	**5,670,143**	**14,955**	5,902,060	15,567
Exchange ratio, end of year	**2.54714**		2.44062	–
Trust units issuable upon conversion	**14,442,648**		14,404,686	–

15. COMMITMENTS AND CONTINGENCIES

a) Legal disputes

The Trust is involved in a single legal dispute which arose in the ordinary course of business, and is not expected to result in any material loss to the Trust.

b) Operating leases

The Trust has entered into operating leases for office premises and mobile and office equipment with future minimum lease payments for the next five years as follows:

	$
2006	1,822
2007	1,428
2008	976
2009	225
2010	76

c) Asset purchase agreements

Under the terms of certain asset purchase agreements entered into in the Energy Services division, consideration provided to the vendors included future royalty payments or a requirement to provide services at fixed, discounted rates, with maximum daily limits. Due to the uncertainty involved in determining the total value of future royalty payments or discounted services to be provided over the term of the agreements, the amounts are only recognized in the consolidated financial statements, as part of property, plant and equipment, when incurred. During 2005, the Trust incurred payments and discounts under these agreements totaling $592 (2004 – $580).

On September 22, 2004, the Trust entered into an eight year take or pay agreement with a pipeline company with respect to its Rainbow Lake facility. Under the terms of the agreement, the Trust is committed to deliver minimum annual crude petroleum volumes to the pipeline. If, at the end of each year, the Trust has not delivered the minimum volumes, it is obligated to pay a tariff on the undelivered volumes. In 2005, the Trust was required to pay $149 in tariffs on undelivered volumes (2004 – nil). The Trust expects to meet its future minimum annual volumes due to increased customer activity in the area.

d) Consulting arrangements

The Trust has entered into various consulting arrangements with respect to international corporate development initiatives, with compensation consisting of consulting fees and the commitment to purchase, on behalf of the consultants, CCS Income Trust units on the open market upon the signing of executable, international service contracts. The Trust is contingently obligated to acquire 34,000 trust units, or pay the cash equivalent thereof, however to date, has not entered into any service contracts.

e) Indemnification

The Trust indemnifies its directors and officers who are, or were, serving at the Trust's request in such capacities. Historically these costs have not been material to the Trust's financial position, operations, or cash flows.

16. PURCHASE OBLIGATIONS

	2005 $	2004 $
Gas delivery obligation	**7,708**	6,446
Less: current portion	**(1,311)**	(1,002)
Long term portion	**6,397**	5,444

On August 8, 2000, the Trust, through its CCS Energy Services division, acquired three caverns at its Lindbergh facility in exchange for a commitment to deliver 2,353 gigajoules of natural gas to the vendor over a 13-year period. The original value of $5,377 assigned to this obligation was estimated using the average cost per unit of capacity acquired by CCS in its Unity cavern acquisition, completed in the same year.

In order to satisfy its gas delivery commitment, the Trust entered into a long-term agreement with a major exploration and development company to deliver the specified volume of gas at variable prices. In 2005, the gas delivery commitment was adjusted by $2,714 (2004 – $1,059) to reflect its estimated fair market value. The fair market value is based on the present value of the future delivery obligation using an estimate of future gas prices. Any gain or loss resulting from the re-pricing is included in earnings.

17. INCOME TAXES

Income tax expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial statutory income tax rates for each of the years due to the following differences:

	2005		2004	
	$	%	$	%
Income before income taxes	**138,671**		76,204	
Provision for income taxes at statutory tax rate	**47,425**	**34.2**	26,214	34.4
Adjustment to income taxes due to:				
Trust distributions	**(16,135)**	**(11.6)**	(13,872)	(18.2)
Capital tax	**903**	**0.7**	864	1.1
Tax effect of rate reduction on temporary differences	**(108)**	**(0.1)**	(356)	(0.4)
Other	**615**	**0.4**	(385)	(0.5)
	32,700	**23.6**	12,465	16.4

a) Components of future income taxes

The net future tax liability comprises:

	2005 $	2004 $
Differences between the tax base and reported amounts of depreciable assets	**52,020**	44,251
Intangible assets	**1,995**	2,230
Provision for asset retirement obligations	**(6,913)**	(6,170)
Equity issue and deferred financing costs	**(206)**	(472)
Gas delivery obligation valuation	**(1,507)**	(942)
Non-capital loss-carry forwards	**(299)**	(3,217)
Other	**37**	1,247
	45,127	36,927

The Trust has non-capital loss-carry forwards of $879 that will expire in 2014.

18. CHANGE IN NON-CASH WORKING CAPITAL BALANCES

Changes in non-cash working capital balances are comprised of the following:

	2005 $	2004 $
Accounts receivable	**(45,687)**	(61,641)
Due from affiliates	–	378
Inventory and other current assets	**(5,728)**	(2,442)
Accounts payable and accrued liabilities	**28,762**	27,872
Income taxes payable	**22,672**	576
Working capital acquired *[note 5]*	**17**	7,175
	36	(28,082)
Attributable to investing activities	**(1,181)**	18,620
Attributable to operations	**1,217**	(46,702)
Cash interest paid during the year	**7,660**	4,088
Cash taxes paid during the year	**1,866**	1,150

19. RELATED PARTY TRANSACTIONS

a) Fractional interest

The Trust has a 37.5 percent fractional interest in a Piaggio Avanti P-180 aircraft for use in CCS' operations. Avia Aviation Ltd., a company controlled by the Chairman and CEO of CCS Inc. also provides management services and operates the aircraft on behalf of the Trust. For the year ended December 31, 2005 the Trust incurred management fee expense, operating costs and costs for contract air services totaling $483 (2004 – $417) with Avia Aviation Ltd.

b) Other

For the year ended December 31, 2005, an entity controlled by certain members of HAZCO's management and their immediate families, charged rental fees to the Trust of $438 for the use of premises (2004 – $39).

All transactions were recorded at the exchange amount and charged to either operating or general and administrative expense depending on the nature of the transaction.

20. SEGMENTED INFORMATION

The Trust's operating segments consist of the following divisions: CCS Energy Services (Energy Services); Concord Well Servicing (Concord); HAZCO Environmental Services (HAZCO), and CCS Energy Marketing (CEM).

- CCS Energy Services owns and operates treatment, recovery and disposal (TRD), cavern and engineered landfill facilities throughout western Canada. Services are provided in the areas of emulsion treatment, water disposal, waste processing, drilling mud disposal, tank/truck washing, crude oil terminalling, cavern disposal, and engineered landfill disposal.
- Concord provides contract oilfield services including well completions, workovers, abandonments, and through the HiAlta Energy Services business unit, the rental of oilfield equipment. Concord Well Servicing operates 53 service rigs in western Canada.

- HAZCO provides a wide-range of specialized services including site remediation, decommissioning, waste services, environmental construction and technologies, emergency response, and sulphur and other specialty services. HAZCO operates a network of industrial landfills, bioremediation facilities and hazardous waste transfer stations that span western Canada. HAZCO also provides services throughout Canada, Peru and select services in the United States and other international markets.
- CEM extracts additional value and operating margin on waste and recovered oil volumes from the Energy Services facilities. This division captures the incremental value created through the marketing chain with revenue streams of lease purchases, single shipper/optimization and bulk purchases.

The HAZCO and CEM operating segments became reportable in the fourth quarter of 2004. Business activity between the divisions is recorded at market rates. Inter-segment eliminations adjust revenue, expenses and profit on inter-segment activity.

The accounting policies followed by these business segments are the same as those described in the summary of significant accounting polices. Administrative costs directly related to the individual business segments are included in operating costs of that division.

The following tables provide information by operating segment for the years ended December 31, 2005 and 2004:

For the twelve months ended December 31, 2005	Energy Services $	Concord $	HAZCO $	CEM $	Consolidated $
Revenue prior to inter-segment eliminations	210,255	94,700	240,892	430,197	976,044
Inter-segment eliminations	(2,632)	(717)	(158)	(33,878)	(37,385)
Net revenue	207,623	93,983	240,734	396,319	938,659
Operating expenses prior to inter-segment eliminations	79,842	62,608	204,594	422,257	769,301
Inter-segment eliminations	(2,400)	(717)	(158)	(33,878)	(37,153)
Net expenses	77,442	61,891	204,436	388,379	732,148
Operating margin	130,181	32,092	36,298	7,940	206,511
Gas delivery obligation valuation	2,714	–	–	–	2,714
(Gain) loss on sale of assets	15	62	(128)	–	(51)
Depreciation and amortization	21,553	4,661	12,553	–	38,767
Income before corporate items	105,899	27,369	23,873	7,940	165,081
General and administrative					16,824
Financing					8,598
Depreciation and amortization					988
Income taxes					32,700
Income before non-controlling interest					105,971
Non-controlling interest					(26,810)
Net income for the year					79,161
Total assets	377,239	109,861	184,800	5,931	677,831
Goodwill	11,441	1,372	38,482	–	51,295
Capital expenditures	63,525	18,034	24,046	1,500	107,105

For the twelve months ended December 31, 2004	Energy Services $	Concord $	HAZCO $	CEM $	Consolidated $
Revenue prior to inter-segment eliminations	160,369	78,283	9,269	57,409	305,330
Inter-segment eliminations	(257)	(271)	(2)	(4,224)	(4,754)
Net revenue	160,112	78,012	9,267	53,185	300,576
Operating expenses prior to inter-segment eliminations	61,760	55,017	7,556	56,495	180,828
Inter-segment eliminations	(58)	(2)	(174)	(4,083)	(4,317)
Net expenses	61,702	55,015	7,382	52,412	176,511
Operating margin	98,410	22,997	1,885	773	124,065
Gas delivery obligation valuation	1,059	–	–	–	1,059
Loss on sale of assets	385	10	–	–	395
Depreciation and amortization	23,492	4,463	515	–	28,470
Income before corporate items	73,474	18,524	1,370	773	94,141
General and administrative					12,264
Financing					4,554
Depreciation and amortization					1,119
Income taxes					12,465
Income before non-controlling interest					63,739
Non-controlling interest					(16,317)
Net income for the year					47,422
Total assets	317,017	84,846	134,951	2,551	539,365
Goodwill	9,166	–	38,231	–	47,397
Capital expenditures	60,680	7,288	1,113	1,087	70,168

21. SUBSEQUENT EVENTS

Refinancing

On January 3, 2006, the Trust refinanced its existing credit facility through an amendment to its credit agreement. Subject to compliance with financial covenants, the facility provides $360,000 of borrowing capacity and replaces CCS' existing $260,000 revolving facility. The credit facility consists of a $310,000 extendible three-year revolving facility with floating interest rates and continuation of the $50,000 non-revolving, non-amortizing term facility due in 2011. Amounts borrowed under the revolving facility bear interest at CCS' option, at the bank's prime rate, banker's acceptance rate or LIBOR rate plus, depending on CCS' ratio of debt to EBITDA, 0 to 200 basis points.

Acquisition

On February 23, 2006, the Trust acquired the outstanding equity interests of Environmental Treatment Team LLC (ETT), an oilfield waste processing company based in Louisiana, U.S. ETT provides waste treatment and disposal services to the Gulf Coast oil and gas market and carries on operations in Louisiana, Texas and Alabama. The purchase price consisted of a cash payment of CDN$21,682.

Board of Directors

David P. Werklund
Alberta, Canada
Chairman of the Board of Directors,
President and Chief Executive Officer

Mr. Werklund is the founder and has been the President and Chief Excutive Officer of CCS Inc., the Administrator of the Trust, or its predecessor since 1984.

Brad R. Munro
Saskatchewan, Canada
Director, Chairman of the Audit Committee

Mr. Munro is Vice-President, Investments of GrowthWorks Capital Ltd. and its affiliates, and manager of GrowthWorks WV Canadian Fund Inc. Mr. Munro has been employed with GrowthWorks and its affiliates since September 1991.

J. Sherrold Moore, P. Eng.
Alberta, Canada
Director, Chairman of the Nominating
and Corporate Governance Committee

Mr. Moore has been an independent oil and gas industry consultant since 1994. Prior thereto, he was a Senior Vice President of Amoco Canada, an oil and gas company.

Brian J. Evans, QC
Alberta, Canada
Director, Chairman of the Environmental,
Health and Safety Committee

Mr. Evans is Associate Counsel with Miller Thomson LLP since January 2005 and prior thereto, was a Partner with that firm since July 1997. Prior to this, Mr. Evans served as a Member of the Legislative Assembly of Alberta and as a Cabinet Minister in the Government of Alberta.

Bradley J. Thomson, CA
Alberta, Canada
Director, Chairman of the Human Resources Committee

Mr. Thomson is a Chartered Accountant and is presently Vice-President, Power Infrastructure Development of TransCanada Corp., a position held since September 2005. Prior to this, he was a self-employed business consultant (since January 2001). From July 1998 to January 2001, Mr. Thomson was a partner with Northridge Capital Inc., a privately held venture capital firm. In that capacity, Mr. Thomson acted as Chief Financial Officer of E-Zone Networks Inc., a privately held media technology company.

Naveen Dargan
Alberta, Canada
Director

Mr. Dargan is Director and has been an independent businessman since June 2003. From October 2001 to June 2003 Mr. Dargan was Senior Managing Director and Head of Energy Investment Banking for Raymond James Ltd., an investment banking firm. From June 1999 to October 2001 Mr. Dargan was Executive Vice-President and Managing Director of Goepel McDermid Inc., a predecessor to Raymond James Ltd.